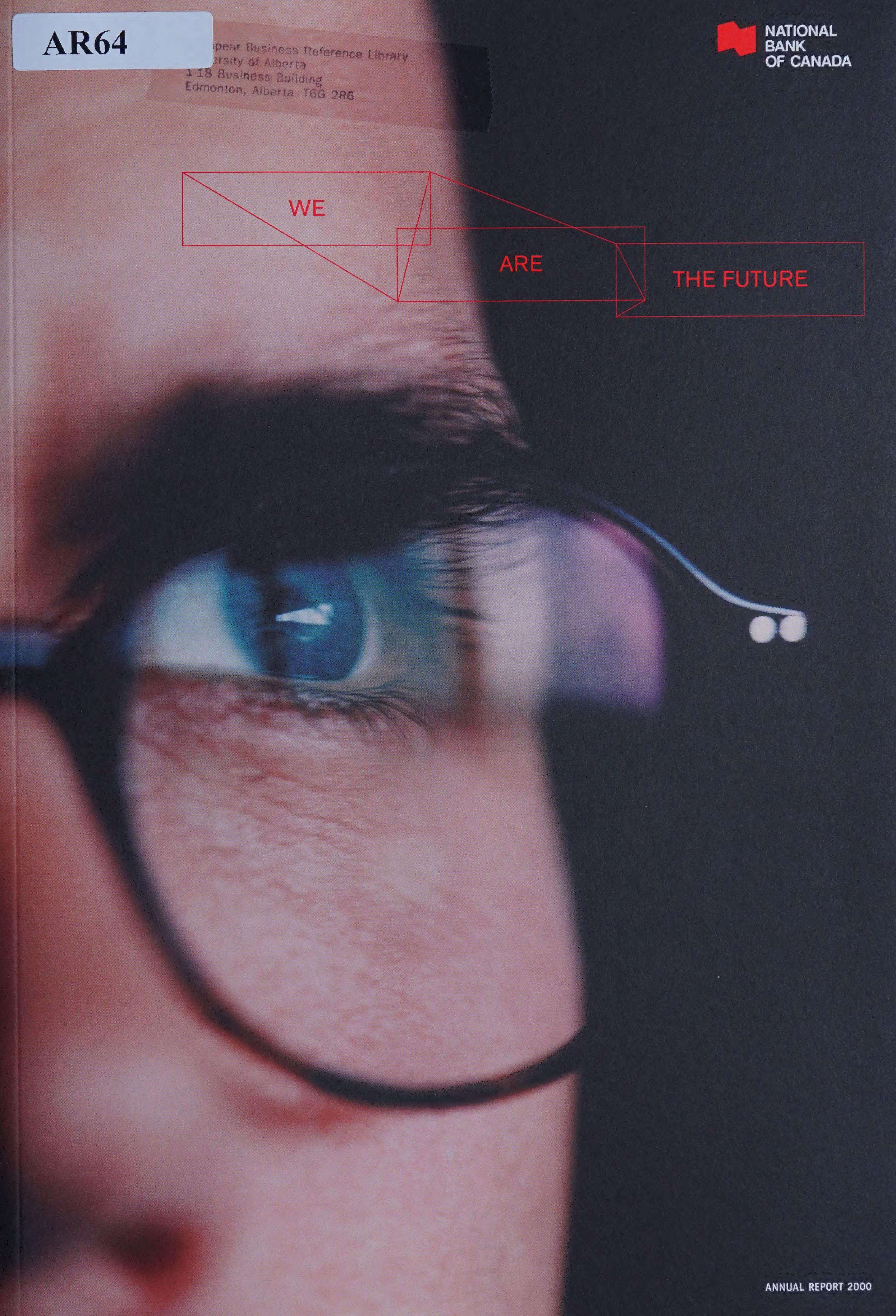
NATIONAL
BANK
OF CANADA



WE ARE THE FUTURE

ANNUAL REPORT 2000

National Bank of Canada is an integrated group whose mission is to provide comprehensive financial services to consumers, small and medium-sized enterprises and large corporations in its core market, while offering specialized services to its clients elsewhere in the world.

The National Bank offers a full array of banking services, including all the investment banking services required by large corporations. It is an active player on international capital markets and, through its subsidiaries, is involved in securities brokerage, insurance and wealth management as well as mutual fund and retirement plan management.

Ranking sixth among Canada's chartered banks, the National Bank is the leading banking institution in Quebec and the bank of choice for small and medium-sized enterprises. It has branches in every province of the country. Through its representative offices, subsidiaries and alliances, it is also represented in the United States, Europe and elsewhere in the world.

Founded in 1859, National Bank of Canada is the product of a series of mergers and acquisitions. Its assets now exceed $75 billion and, together with its subsidiaries, it employs over 16,600 people. The Bank's head office is in Montreal and its shares are listed on The Toronto Stock Exchange.

Highlights

	2000	1999	PERCENTAGE CHANGE 2000/1999
Operating results			
(millions of dollars)			
Net interest income (taxable equivalent basis)	**1,334**	1,319	1
Other income (taxable equivalent basis)	**1,970**	1,263	56
Income before goodwill charges	**531**	428	24
Net income	**509**	417	22
Return on common shareholders' equity before goodwill charges	**16.0%**	15.5%	
Per common share			
Income before goodwill charges			
– Basic	**$ 2.66**	$ 2.30	16
– Fully diluted	**2.64**	2.27	16
Net income			
– Basic	**$ 2.54**	$ 2.24	13
– Fully diluted	**2.52**	2.21	14
Dividends	**0.75**	0.70	7
Book value	**17.60**	15.81	11
Stock trading range			
– High	**$ 25.25**	$ 26.20	
– Low	**16.40**	17.15	
– Close	**24.95**	17.90	
Financial position(1)			
(millions of dollars)			
Total assets	**75,827**	69,801	9
Loans and acceptances	**50,379**	46,853	8
Deposits	**50,473**	49,984	1
Subordinated debentures and shareholders' equity	**5,189**	4,336	20
Capital ratios – BIS			
– Tier 1	**8.7%**	7.7%	
– Total	**11.4%**	11.0%(2)	
Interest coverage	**9.37**	7.41	
Asset coverage	**3.46**	2.74	
Other information			
Number of common shares at end of year (thousands)	**189,474**	188,729	
Number of common shareholders of record	**30,795**	32,048	(4)
Number of employees	**16,616**	17,703	(6)
Number of branches in Canada	**586**	649	(10)
Number of banking machines	**802**	761	5

(1) *The impact of the adjustment to the general allowance for credit risk as at October 31, 1998 is explained in Note 25 to the consolidated financial statements on page 86.*
(2) *Taking into account the issuance of US $250 million of subordinated debentures on November 2, 1999.*

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WE
ARE READY
FOR TOMORROW

Dear Shareholders,

In an environment marked by vigorous growth in the Canadian economy, we can be proud of our achievements during the fiscal year ended October 31, 2000 – particularly as our competitors are becoming increasingly assertive and numerous, our clients better informed and the technological challenge more imposing.

For the eighth consecutive year, the National Bank surpassed itself by achieving record income before goodwill charges of $531 million, or over 24% more than in 1999. These results not only encourage us to stay on course, but they demonstrate once again the merits of our business decisions.

Return on common shareholders' equity before goodwill charges rose from 15.5% in fiscal 1999 to 16.0% in fiscal 2000, making it the Bank's best return on equity in 12 years.

Underpinning these solid results was the strong growth in the Bank's business volumes. Total revenues, at $3.3 billion, were up 27.9% from 1999, mainly because of robust growth (+55.9%) in other income. For the first time in the Bank's history, other income exceeded net interest income ($1.97 billion versus $1.33 billion). Our goal of diversifying into every sector of the financial industry, our penetration of markets outside Quebec and the energy we have put into advisory services are bearing fruit well beyond our expectations.

In the Personal Banking and Wealth Management segment, income (before goodwill charges) posted a remarkable 43.3% rise and other income grew by 34.5%. Three-quarters of this increase was generated by National Bank Financial and included revenues from the correspondent network acquired with First Marathon in 1999.

Commercial Banking income was also up (+16.5%), as were net interest income (+9.9%) and other income (+8.4%). This performance can largely be traced to growth in lending volumes, which was evenly divided between the domestic and U.S. markets.

In the Financial Markets, Treasury and Investment Bank, excellent results in treasury operations and a 67.7% increase in revenues over 1999 boosted income by 46.6%. We have worked hard to leverage synergies across the various components of National Bank Financial and the Bank, and these results are eloquent evidence that we are on the right track.

In other words, every single business segment contributed to our record performance in 2000 and readily explains why the total return to common shareholders for the year was 44.5%, including dividends and share price appreciation. Over the last five years, National Bank shareholders have received a compound average annual return of 22.2%.

Such results obviously justify a steady increase in the dividends paid out by the Bank on its common shares. In fiscal 2000, the Board of Directors declared a dividend of $0.75 per common share, $0.05 or 7.1% more than in 1999. If the dividend per share represents about 29.5% of the Bank's net income per share of $2.54, it is because we believe that we can generate attractive returns on the earnings we are accumulating and investing in our growth.

Are we pleased with these results? Of course, but we have no intention of resting on our laurels. Although competition has never been so fierce, our plan is to position ourselves for long-term growth in our primary geographic market and in our core strengths, by focusing on our personal banking clientele and on our SME and corporate banking clients.

Our use of modern channels of communication, such as the Internet, is aimed at fostering the development of a more, not less, personalized approach with customers. That is how we are able to counter the competition and anticipate our customers' needs. We have to continue to see far ahead and to aim high, all the while maintaining the same prudent, realistic and focused attitude that has contributed to our success in recent years.

Principles such as these are what prompted us to review our administrative structure in the spring of 2000. To further enhance the quality of the services offered to our various business clients, adapt to the growth in e-commerce and electronic services and quickly become a leading player in e-commerce and remote-access networks, we decided to divide the Personal and Commercial Bank into four business lines: Personal Banking, Commercial Banking, Wealth Management and E-Commerce.

André Bérard

TOMORROW'S CHALLENGES ARE IN SIGHT

The sale of our technology subsidiary SIBN Inc. to COGNICASE INC. on June 1, 2000 in exchange for common shares was very much part of this administrative reform and the strategy directing it. Holding some 35% of the shares of COGNICASE, the Bank has established a solid partnership with the company, which will be the Bank's preferred supplier of information technologies and e-commerce solutions, products and services over the long term.

When you are a bank with a passion for SMEs and entrepreneurs, the demands and challenges are considerable. We find ourselves dealing with clients who know exactly what they want, who are increasingly well informed and who are comfortable with using new communication technologies. They have a myriad of choices and are sensitive to the prices and fees charged on the services they receive. While they have little time for financial planning, they are deeply concerned about their own and their family's financial security. They want their bank to give them quality, seamless and convenient solutions that will adapt along with them as their personal situation changes.

A key ingredient in any good business strategy is to create and maintain a working atmosphere that encourages employees to give their all. Without the wholehearted involvement of employees and their dedication, ingenuity and talent, we would never be able to serve our customers so well or to grow our organization. That is why we offer our personnel the training, technology, incentives and time they need to devote themselves to their customers. At every level of our organization, we are building a relationship that inspires professionalism and initiative so that our customers obtain the personalized service they have every right to expect.

Success in banking, an industry characterized by high transaction volumes and narrow margins, hinges on how effectively we can stimulate productivity, properly manage risk at every level, increase business volumes, exploit our strengths, diversify our products and adapt to the various milieus in which we are present.

As you will note in reading this annual report, our initiatives in developing our physical and electronic networks, our partnerships and our acquisitions all have the same goal: to offer what is best for our shareholders, our individual and business clients, our employees and Canadians in general. In today's electronic era, forging quality relationships with customers remains our number one priority.

In closing, we would like to thank the members of the Board of Directors, who through their knowledge and experience have guided us in asking the right questions, developing our vision and making the right decisions. As Donald M. Green, Léonce Montambault and Michel Perron will not be standing for re-election as directors in 2001, we would like to express our appreciation to these three members for their invaluable contribution to the work and deliberations of the Board. We especially want to pay tribute to the late Claude F. Savoie, who died on October 5, 2000. He was deeply committed to our institution, and will be sorely missed. We have lost a good friend and an esteemed colleague.

In the National Bank's annual report for 2000, you will obtain an overview of some of the themes that inspire us daily, as well as a better idea of the scope of our financial group, its activities and its achievements. We hope you enjoy reading it.

Jean Turmel and Réal Raymond


RECORD EARNINGS
UP
24%

We offer our customers comprehensive solutions, superior service and a lasting relationship built on trust. Looking to the future and aiming high, we are ready for the changes ahead.


SEEING FAR
FREES
THE SPIRIT

Canadians have seen their banking system change radically in recent years. However, the period of transformation is really just beginning, spurred on by advances in information technology, globalization and the opening up of the domestic market to foreign financial institutions. The years ahead can be expected to yield many new developments in terms of mergers, strategic alliances and business models, as each of the major banks decides on what route to take, who its natural allies are and where its most promising markets are to be found.

Our shareholders, clients and personnel, the media, financial analysts and the public at large are all trying to understand, from their own perspective, the present manifestations and future impact of these unprecedented upheavals. Nothing could be more natural. Virtual banks, remote-access banking, Internet financial supermarkets and banking technologies are being deployed in a context of globalization, deregulation and liberalization of financial markets that will have major repercussions for Canadian banks in general, and for National Bank of Canada in particular.

To provide some food for thought about the transformations affecting the financial services industry, we would like to focus on the issue of customer relations in the present context of emerging communication technologies, e-commerce and the Internet. The impact of these new phenomena on the Bank's operations, mission and service quality is as crucial for you as it is for us.

Globalization and technology

The primary outcome of economic globalization and freer trade has been more fierce competition among businesses. The Canadian banks are no exception to this trend. Canada has opened up its borders to new competitors in the financial products industry, and leading the influx are U.S., European and Asian megabanks. Large foreign corporations specializing in a very specific niche, such as mutual funds, discount brokerage, credit cards, corporate financing or wealth management, have also made a swift, strong entry into the market. Never has the Canadian financial services sector been so pluralistic and segmented, which is all to the greater benefit of consumers.

The major banks have made immense strides in information technology, which in turn has necessitated an extensive reorganization of their operations in order to derive maximum value from this technology for their customers and shareholders alike. However, technological advances have also rekindled competition between banking institutions, for two main reasons. First, clients can now easily obtain information on the products and services available at various banking establishments and can do more comparison shopping before finally making their choice. And secondly, because the barriers to entering the banks' traditional areas of activity have been eliminated, it is no longer necessary to have a huge bricks-and-mortar network to reach a critical mass of clients.

Globalization and the revolution in communication technologies are therefore two forces that fuel each other and compel us to acquire a good understanding of the challenges of the future. In response to the new competitive environment created by globalization, the National Bank is doing its utmost to successfully integrate new technologies and remain at the forefront of new developments in financial services. Moreover, the power of new information technologies, the Internet and the development of transborder e-commerce make it much easier for new players to enter the financial sector and, very soon thereafter, to become formidable competitors of the Bank.

In this increasingly competitive and changing environment that affects the organization, management and distribution of financial services, the capacity demonstrated by the Bank in offering its customers comprehensive and seamless solutions, superior service and a lasting relationship built on trust will be an invaluable asset for its future.

Virtual banks

Many experts maintain that the greatest development potential for the banks and their market, whether retail or commercial, lies in the Internet.

In North America and Europe, certain financial institutions dating back a century or more have decided to create specific brands as a way of launching themselves into Internet banking. Their goal is to project a new, more youthful and dynamic image that contrasts with the sober, conventional image that clings to traditional banks.

It must be acknowledged that the first completely virtual banks have been quite successful. The attraction of these virtual banks is the potential of their clientele: well-to-do members of a high socio-professional class, ranging between 25 and 45 years of age.

At the beginning of 2000, Canada had about a dozen virtual banks, some of which were started up by companies with no experience in the area of financial services. After only a year or two in business, these virtual banks have started to recognize the need for a branch network in order to meet with clients and answer their questions about financial products.

The large U.S. virtual banks, like CompuBank™, have grasped the importance of this principle and have no qualms about associating with partners that have a physical presence in towns and cities, even going so far as to buy banking machine and branch networks to increase customer loyalty and develop their customer relationships.

While the so-called traditional banks are making commendable efforts to become web-based transactional banks, the completely virtual banks of the New Economy are increasingly recognizing the limitations of their business model and trying to equip themselves with all the infrastructures which constitute the strength of the "old" banks.

The National Bank has long understood that virtual banks and remote-access banking, no matter how convenient they may be, are not in themselves enough to meet the expectations of financial service consumers at certain crucial stages in their lives. In spite of the proliferation of communication methods and new technologies, the need for proximity has never been greater. Indeed, the relationship between customers and employees even seems to be becoming more mutually rewarding and more complex, in line with the expectations of clients, who have themselves become more diverse, and consequently demand a more personalized approach.

Internet financial supermarkets

Internet users who are familiar with major portals such as America Online™ and Yahoo!™ know that financial products are already being e-tailed on a platform that is totally independent of a financial institution. With its Finance Center, Yahoo!™ is in the process of creating a new model for delivering financial products. And yet, this Finance Center simply brings together financial products and services from various suppliers in a single virtual location. Just like in a supermarket, consumers can wander at will from one section or aisle to another, buying what they want, when they want.

Cooperative endeavours between financial institutions and the general portals will no doubt take a number of forms. Different models of association are already being tested. For instance, since December 1999, the customers of *Banque Directe*™ in France have been able to access information on their bank accounts via Yahoo!™ Thus, by becoming integrated into the Yahoo!™ financial portal, *Banque Directe*™ has not just increased its visibility but also enjoys the advantages of being associated with the world's leading general portal. Clients, for their part, have online access to information on their balances and the transactions posted to their bank accounts and credit cards, using Yahoo!™ personal pages.

Financial supermarkets like the ones to be found on the general Internet portals are too recent a phenomenon for any discernible trends to emerge as yet. However, U.S. banking industry studies have already concluded that, with the advent of the Internet and e-commerce, customer loyalty is likely to erode because it is now so much easier for customers to find out what the competition is offering and to compare the price and features of a specific financial service.

In addition to tracking current trends, recent developments and the pilot projects currently being launched by the banking industry, the National Bank is also keeping a close watch on Internet megasites and e-tailers that have their eye on the financial products and services market. Our approach and analysis of the situation are guided by a single question: what will create value for our customers and shareholders?

Technology serving customers

Modern communication technologies have an impact on almost every aspect of banking, so much so that many observers consider them the primary agent of change in the financial services industry. Thirty years ago, the purpose of computer technology was to achieve productivity gains and facilitate transaction execution and archiving. Today, its function is to make customers' lives easier and help them in choosing services and finding financial solutions.

But beware! The relationship of trust between customers and their financial institution cannot be built solely on the basis of two inter-linked computers, no matter how powerful and user-friendly they are. At the National Bank, we have always taken the view that technology must serve the customer, and not the other way around. New means of communication must bring customers and Bank personnel closer together, not keep them apart. They must facilitate two-way communication by making it more efficient and more suited to the constraints of modern life.

What most users of transactional websites want from new technologies is easier access to banks in the form of more points of contact with bank staff, more personalized products and services, and for bank personnel to be more available to answer their questions quickly, day or night. And that is exactly what the National Bank offers them. Our use of the Internet and modern communication tools will, moreover, foster the development of a more personalized approach, with product and service offerings that are both more extensive than in the past and better targeted to different clients' needs.

Business intelligence systems

New information technologies are, of course, more than just the Internet, wireless telephones and the implementation of remote transactional sites. The National Bank also has the requisite technological capacity to develop databases and programs that will enable it to identify its clients' needs and profiles more accurately.

In our dealings with clients, every aspect of their banking and financial activities, such as bank account management, cheques, card management, stock investments, Internet use, etc., will be increasingly taken into account. With every contact, the information obtained will help to further personalize relations with the client.

Our newest financial service management tools are designed to help us gain a better understanding of the habits and behaviours of specific client segments doing business with the Bank, and to develop service offerings that are more specifically adapted to each customer's needs. The Bank's personnel are constantly honing their skills in order to make optimal use of these business intelligence instruments and databases to discover

clients' evolving needs during the various stages of their lives, and throughout their spending, credit and saving cycles.

In other words, our research and communication tools are able to adjust to the rapidly changing financial environment. Our goal is to produce and provide high-quality, accurate, advice-oriented information which can also help employees to optimize their relationship with their customers.

Keeping in touch

Thirty or 40 years ago, face-to-face service was the norm in bank branches. The banks' adoption of technology has been a contributing factor in reducing the frequency and intensity of such contact with clients. Some banks opted to build their customer relations on the basis of market segmentation and specific consumer groups and to target clients through promotional, advertising and media campaigns. While this approach may have its merits, it has one serious flaw: it is strictly one-way. We at the National Bank believe that each customer has to be seen as an individual, not just as an abstract component of some market segment or another.

Face-to-face relations between bank staff and customers in this electronic age, when new advances in communication abound, must take a different tack. It is not enough to try to attract a large share of our customer's business by offering more and more value-added services. A successful personal relationship with a client demands a careful analysis of his or her situation, the relevant spending, credit or saving cycle, and the moment he or she will be ready for an advisory relationship that goes beyond the usual transaction services.

Today, we are able to respond quickly and effectively to customers' needs by identifying turning points in their professional and financial lives. Our personnel can pinpoint the service or services that will meet their needs, but more importantly, they are familiar with the rules of good communication and all the ingredients that go into a successful, enriching and lasting personal relationship based on mutual trust.

The challenge of customer loyalty

At one time, the branch was the cornerstone of banking services, with the result that the banks' marketing strategy was essentially limited to deciding the number and location of their branches in a given territory. As soon as someone opened an account, the business relationship was established, and the customer's loyalty – and often that of his or her entire family – could be taken for granted. Those days are long gone. In banking, as in any sector of retailing where e-commerce has gained a foothold, holding on to customers is an ongoing battle.

Well aware of these challenges, the National Bank has adopted a more proactive business approach and is rethinking its customer relations in order to expand its market shares, develop the potential of existing clients and retain the loyalty of long-standing clients.

At the end of the day, a bank is simply a customer service company, which means that we must listen attentively to our customers and offer them convenient ways to access our services and our advisors, whether at a branch, by telephone or by e-mail. The Bank's objective is to ensure that customers have access to the products and services that best suit their needs, and at the same time, access to the most empathetic, conscientious and competent experts and professionals in the Canadian financial industry. Without this human dimension that has long been part of the National Bank's corporate culture, the Bank could never have achieved as much as it has in its Canada-wide expansion.

Establishing a close, all-encompassing and durable partnership with its clients: that has to be the ultimate goal with respect to the new communication technologies revolutionizing Canada's financial services industry. The result can only be beneficial to the banks and customers alike.

Strategic Objectives

For a number of years now, the Bank has indicated that its main financial goal was to achieve annual income growth of 10% or more. This objective has in fact been reached for seven of the past eight fiscal years.

During fiscal 2000, the Executive Office determined the strategic objectives which will guide the Bank's actions in future years. These objectives are summarized in the table below:

Strategic Objectives

	2000 Results	Objectives
Growth in income before goodwill charges:	**24%**	+ 10%/year
Return on common shareholders' equity before goodwill charges:	**16.0%**	15.5% - 17.5%
Productivity ratio:	**65.1%***	60% in 2003
Tier 1 capital ratio:	**8.7%**	7.75% - 8.50%

*Excluding the gain on the sale of a subsidiary and certain operating expenses

Our challenges

Society is changing, the economy is changing, consumer habits and communication methods are changing, the financial services industry is changing... and the National Bank is also changing. Our strategies and priorities are constantly evolving so as to ensure that we are able to adapt to the new realities. The major challenges facing us in the years ahead are the following:

Increase synergy between the teams at the Bank and its subsidiaries and become an even more integrated financial group that gives all its clients access to the full range of financial products and services offered by the Bank and its subsidiaries.

Continue to develop our distribution networks and new branch concepts in line with our clients' needs.

Continue to develop our electronic networks (most notably through our strategic alliance with COGNICASE), which are becoming increasingly popular with our clients.

InvesNET.com gets a full makeover

National Bank Discount Brokerage launched a brand new version of its InvesNET.com website in June 2000. The new version is more accessible for Internet investors and offers them even more data for making informed decisions: real-time quotes; stock profiles and charts on Canadian and U.S. companies; the value of major stock indexes; a commentary by Dominique Vachon, the Bank's chief economist; the day's top five financial news stories as selected by the Research Department; news about stocks selected by the user; the daily market review; the quarterly information bulletin *The Financier;* a technical graph on daily changes in the TSE 300; foreign exchange rates, etc. The second phase in developing the website calls for the introduction of a stock alert system, the possibility of downloading transactions to Quicken™ software, sales of new products (bonds, coupons, debentures, Treasury bills), a mutual funds section and many other research and analysis tools.

Strengthen our advisory role for active clients who are pressed for time, who are juggling more and more responsibilities and who are overwhelmed by the proliferation of product offerings.

Continue to position the Bank as a bank with solutions for our commercial clientele.

Focus on comprehensive product and service offerings for clients in order to counteract specialized competitors.

Seize every opportunity for business development presented by the new federal regulations governing financial institutions and banks in Canada.

Management

The Bank is headed by a Board of Directors whose mandate is to define the Bank's mission, set its objectives and approve effective strategies for achieving them. Its role consists in supervising the management of the business and affairs of the Bank, protecting its assets and ensuring its effectiveness, profitability and development. Either directly or through its various committees, the Board oversees and supports management in achieving the performance objectives established in the strategic plan.

The mandate of the Executive Office is to implement the key orientations approved by the Board. In addition to the Chairman of the Board and Chief Executive Officer, André Bérard, the Executive Office consists of the Presidents of the Bank's two main entities, namely, the Personal and Commercial Bank and the Financial Markets, Treasury and Investment Bank.

The President of the Financial Markets, Treasury and Investment Bank is Jean Turmel, who was appointed to the position in 1998. Prior to that time, Mr. Turmel, who joined the Bank in 1981, held various senior management positions. He is also a director of the Bank.

The President of the Personal and Commercial Bank is Réal Raymond. He was appointed to the position at the end of fiscal 1999 when he was also made a member of the Board of Directors. Mr. Raymond, who has been with the Bank since 1970, held a number of positions in the branch network before assuming various senior management functions as of 1987.

The Board of Directors has extended André Bérard's mandate as Chairman of the Board and Chief Executive Officer until March 2002. Mr. Bérard has been Chief Executive Officer since 1989.

Structure of the National Bank

The structure of the Bank can be compared to a living organism in that it changes regularly in order to reflect the Bank's evolving operations, adapt to its new environment and facilitate execution of its business plan. In view of the profound transformation of the financial services industry, management reviewed the administrative structure in the spring of 2000 in order to realign the Bank's positioning and thereby maintain and enhance the quality of the services we offer to our various client groups.

The need to adapt our organizational structure was prompted by two factors: 1) the multiplication of distribution channels and the growth in electronic commerce and services; and 2) the growing interdependence at the operational level of the units making up the National Bank Group, especially with respect to wealth management.

The Bank is composed of two main entities: the Personal and Commercial Bank and the Financial Markets, Treasury and Investment Bank. Support services are divided among three Senior Vice-Presidents who report directly to the Chairman of the Board and Chief Executive Officer, and who are responsible respectively for Human Resources and Administration, Finance and Control, and Credit.

The changes made to the Bank's administrative structure in 2000 primarily concerned the Personal and Commercial Bank and, to a lesser extent, the Financial Markets, Treasury and Investment Bank.

Our goal in making these adjustments was to provide better service to our clients, improve coordination among our various units, enhance manager accountability for our business lines (Personal Banking, Commercial Banking, Wealth Management) and rapidly become a leading player in e-commerce, e-banking and remote-access networks.

The 7th edition of the National Bank's SME recognition program

In November 2000, the National Bank held the 7th edition of its Small and Medium-Sized Enterprises of the National Bank recognition program. In each of the Bank's 14 administrative regions in Quebec, three companies were chosen to participate in the provincial finals in the following categories: Small Business (less than $1 million in sales); SME ($1 million to $15 million in sales); Agricultural SME (agribusiness with less than $15 million in sales). In addition, a special award for export companies was presented to one of five regional finalists. The provincial winners were showcased on *Distinction*, a special program broadcast on the TVA network in December. They also received airline tickets for two to Paris, courtesy of Air France. The winners were:

Small Business
Les Métiers d'Art Epsilon inc.
St-André-Avellin, Quebec

SME
Hemera Technologies Inc.
Hull, Quebec

Agricultural SME
Ferme Gérard & Marie Charbonneau
Saint-Charles, Quebec

Special Export Award
Microslate Inc.
Brossard, Quebec

Personal and Commercial Bank

The Personal and Commercial Bank consists of four business lines: Personal Banking, Commercial Banking, Wealth Management and E-Commerce.

PERSONAL BANKING

Personal Banking offers individuals and small business clients the full spectrum of financial products and services. While the branch network has traditionally been the point of access for banking services, the emphasis today is on offering them through many alternate networks as well. Thanks to our wide selection of products and the diversity of our distribution networks, we are able to ensure that every single customer receives the products and services that match his or her specific needs and priorities.

The accelerated development of savings products on financial markets, combined with demographic changes, has led individual clients to seek out financial advice with increasing frequency. In response to this demand, the National Bank has made a major commitment to this market in recent years. We now offer our clients a variety of products and services, all designed to manage their savings efficiently and going far beyond basic deposit accounts.

Among the Bank's retail clients are some 112,000 small businesses, often consisting of professionals, self-employed individuals and sole proprietorships whose annual sales are under $1 million and whose loans with the Bank amount to less than $350,000. The National Bank has a sizeable share of this extremely important market. The mission of the newly-created Small Business Management segment, which is headed by a Senior Vice-President, is to further develop our services to this client group.

New version of the Virtual Advisor for Enterprises CD-ROM

Designed for SME managers, the new version of the National Bank's Virtual Advisor for Enterprises CD-ROM has been available since June 2000 at every Bank branch. Among its many new features are a program for comprehensive strategic planning and an Internet directory designed to help SMEs use the Internet more effectively. The second-generation Virtual Advisor for Enterprises also contains all the features and programs of the first version, namely, a complete guide for preparing a business plan, which can be adapted for use by both business start-ups and existing enterprises looking to expand their operations, as well as a software package designed to simplify accounting, transfer funds, check account balances online, and manage payroll and human resources. Like its predecessor, the new version provides detailed and practical information on all the services available to SMEs through the National Bank and its financial network.

Growth for the Bank in the small business market lies in areas such as savings products, electronic services, multi-form financing and investment advice. Our aim is to make a wide array of electronic products available to our small business clients, to give them flexibility by offering them a choice of distribution channels (including branches, banking machines and the Internet), to build strong lines of communication and to simplify the credit process.

Not only has the National Bank equipped itself with the tools it needs to be the leading banker for small businesses but it has formed a special division whose role is to oversee the development of products geared to meeting the needs of this clientele.

COMMERCIAL BANKING

Commercial Banking encompasses all of the financial services offered by the Bank to small and medium-sized enterprises (SMEs) in its core market of Quebec, as well as the specialized services it makes available to business clients elsewhere in Canada and in the United States. This client group consists of close to 12,225 business clients whose annual sales generally fall into the $1 million to $25 million category and whose Bank loans range from $350,000 to $20 million. In addition to the 49 commercial banking centres and the five international centres in Canada geared to servicing SMEs, clients also have access to the Bank's global network of subsidiaries, partners and representative offices.

The National Bank prides itself on being a bank with solutions for SMEs. Business clients can confidently turn to us for diverse, innovative and integrated solutions for all their financing, treasury, investment and management needs. In every region there is a manager specialized in global cash management whose function is to give SME clients advice on how to optimize their cash management operations. Similarly, these businesses can draw on the expertise of our international business development managers for advice on every aspect of export operations. Moreover, in cooperation with our partner COGNICASE, Commercial Banking can give business clients access to a complete line of information technology and data communications products and services.

In developing its commercial banking operations, the Bank has adopted a geographic and sector-based diversification strategy.

In geographic terms, this has meant expanding further into the SME market in Ontario where we have opened a number of commercial banking offices. As a result, Ontario SMEs can now access the banking and financial solutions that have proved so successful for the Bank in Quebec. Geographic diversification also applies to the United States, where we have opened 21 offices in recent years in order to continue growing the Bank's business in the asset-based lending sector. A prime example of the sector-based component of our diversification strategy outside Quebec is the specific niche of junior oil companies in Western Canada.

Even in its core market, where its share of the market is higher than that of any other bank, the National Bank is looking for specialized niches where it can increase its penetration and attract new clients. Teams from the Bank's various sectors and geographic regions have developed specialized groups, notably in wealth management, agriculture, film and television production, energy resources and high technology. These flexible, multi-faceted teams make the Bank even more competitive in select target markets.

For example, the T.V. and Motion Picture Group focuses mainly on financing feature film and television productions. It ranks first among financial institutions in Quebec with more than $200 million in assets under management. In addition to providing direct industry financing, the Bank holds a 17% stake in *Financière des entreprises culturelles* (FIDEC), a limited partnership which makes gap financing available to productions that will be sold on the international market.

Other instances of this niche development strategy include establishing business relationships with the film production sector, setting up structured financing transactions and participating in leasing activities through our subsidiary Alter Moneta.

Most of our regional centres in Quebec have a manager on staff who is responsible for international business development and whose role is to advise business clients on export

financing and risk management in an international trade context. Similar positions have been created in other provinces, specifically Ontario and Alberta.

Every year, the Bank expands its capabilities for providing assistance to SMEs which export abroad. For instance, we are involved in Fodex, a fund which invests in the capital of foreign companies that buy from Canadian companies. Through its NatExport and Sodex subsidiaries, the Bank also continues to provide factoring services (purchase of foreign receivables) for exporters.

On February 11, 2000, the National Bank announced its decision to join the Northstar Trade Finance network, a world leader offering customized financing solutions to help start-ups and growing SMEs meet the challenges of competition in the complex international export market. Thanks to the major capital investments made by the Bank in Northstar, foreign clients of Canadian exporters now have access to a loan fund totalling $310 million that serves to finance export sales transactions ranging in value from $100,000 to $5 million.

WEALTH MANAGEMENT

Trust, insurance, private banking and personal wealth management operations all come under Wealth Management, as do the National Bank's subsidiaries involved in those business lines.

Bankers act as intermediaries between depositors and borrowers. To depositors, they offer savings instruments; to borrowers, they grant credit in various forms, including consumer loans, lines of credit, credit card advances, etc. To complement these banking services, we also offer an extensive range of financial products, such as National Bank Mutual Funds distributed by National Bank Securities, securities available through the retail network of National Bank Financial and National Bank Discount Brokerage, insurance products marketed under the National Bank Insurance brand and trust products from General Trust of Canada.

In 1993, the National Bank acquired the assets of General Trust of Canada and made it a full-fledged member of the National Bank Group. Founded in 1927, our trust subsidiary now has several billion dollars under management. Its mission is to provide individuals and businesses with trust and financial products and services of the highest calibre, as well as access to its expertise in asset management and administration, namely, discretionary and private portfolio management, estate planning, trust administration, investment and pension fund administration, implementation of company share ownership plans, group pension plan administration, securities administration and custody, etc.

National Bank Securities, a wholly-owned subsidiary of the National Bank since 1987, operates mainly in the mutual fund sector acting as manager and promoter of National Bank Mutual Funds. Another Bank subsidiary, Natcan Investment Management, provides financial management services to a variety of companies and institutions, including pension funds and institutional investors. The acquisition of Kogeva, a firm specializing in international management, enabled Natcan to take back management of the international investments of National Bank Mutual Funds, a responsibility that had previously been assumed by an external fund manager.

National Bank Financial Services Inc. is a distribution network that was created in 1996. It not only offers the products and services of members of the National Bank Group but also distributes those of other major financial institutions with which it has concluded specific alliances. Its role is to meet with clients when and where they choose in order to provide them with a complete line of products and services that will enable them to ensure their financial security.

National Bank Life Insurance Company, which was established in 1995, is a wholly-owned subsidiary of the National Bank. Its mission is to offer a variety of insurance products, specifically, credit insurance on the various types of loans granted to individual and business clients.

The product of a strategic alliance between the National Bank and one of Canada's leading property and casualty insurers, AssurNat specializes in automobile insurance. Its goal is to offer one of the industry's best price/quality values in automobile insurance by giving practical advice to clients

Strategic partnership between National Bank and COGNICASE

On June 1, 2000, the National Bank and COGNICASE announced that they had signed a partnership agreement. Under this agreement, the Bank received 9,291,008 COGNICASE common shares in exchange for the shares of SIBN Inc., the National Bank's information technology and e-commerce subsidiary, and made a $20 million investment. As a result, the Bank holds approximately 35% of the company's share capital. For the next 10 years, COGNICASE will be the preferred supplier of information technology services to the Bank and its subsidiaries while continuing to be the National Bank's preferred partner for all its e-commerce solutions, products and services, including wireless solutions. COGNICASE, which is listed on the Toronto and Nasdaq stock exchanges, employs more than 3,500 professionals in several countries, including Canada, the United States, France, Spain, Italy, Belgium, the Netherlands and Australia. The four sectors in which it specializes are outsourcing and integration, e-business solutions, wireless/Internet technologies and Internet portals.

Business agreement between National Bank Securities and Fidelity Investments

In May 2000, National Bank Securities signed a partnership agreement with Fidelity Investments, the world's largest mutual fund company. The five new funds subsequently created under the National Bank/Fidelity brand complement the National Bank Mutual Fund family, especially with respect to specialized and international funds. Under the agreement, Fidelity will also make its expertise available in training National Bank representatives and in producing information material for clients. This new partnership will enable the National Bank to deliver value-added investment advisory services to its clients.

both when they are buying insurance and when they are making a claim.

All these Bank subsidiaries work in tandem to take advantage of the brisk growth in the wealth management market. In North America, this growth has been fuelled chiefly by the baby boom generation as it continues to build up its substantial wealth. The National Bank is already a leader in wealth management in Quebec, where National Bank Financial is by far the largest full service broker.

Operating in conjunction with the Wealth Management segment, National Bank Financial acts as a complementary network integrated with the other units and subsidiaries of the National Bank. "Complementary" because more than half of the 270,000 clients of National Bank Financial do not do business with our branch network. National Bank Financial therefore reaches a relatively affluent clientele that has no other relationship with the Bank. And "integrated" because it works closely with the other members of the National Bank family in offering clients financial services that meet their needs.

Wealth management also covers traditional banking products and mutual funds distributed through branches, private banking centres, General Trust and National Bank Discount Brokerage. By consolidating these subsidiaries and initiatives in the Wealth Management group, we can be a universal bank for individuals in Quebec and, increasingly, everywhere in Canada.

E-COMMERCE

To ensure its sustained growth, it is essential that the National Bank be involved in the expansion of electronic networks. The National Bank has always tried to ease the shift towards carrying out personal transactions via non-branch networks by taking pains to respect clients' preferences while generating the same savings enjoyed by the rest of the industry. That approach will continue to guide us in developing our e-commerce operations and products.

Our individual clients now have access to an entirely virtual branch called Direct•N@t. Since its launch in November 1998, Direct•N@t has attracted close to 50,000 clients who use it on a regular basis for their banking transactions. Our commercial clients, for their part, can rely on our family of ClicCommerce products, which have enabled the 7,000 businesses already using these services to cut their internal transaction costs by 60%.

Electronic networks are the main thrust of our plan to give a wider and more North American scope to our successes in personal and commercial financial services. Outside Quebec, for instance, expansion will focus primarily on brokerage operations, both full service and discount, which do not require a substantial outlay in bricks and mortar.

The E-Commerce segment, created to take full advantage of the vast potential and flexibility of e-commerce, has been assigned sole responsibility for our electronic and remote-access distribution networks as well as our credit card services. It will be in charge of developing electronic products for all our business lines under a single brand name: National Bank.

A well-known, recognized brand is a major asset for a business corporation. Properly managed, it is a kind of capital that grows in value over time. Branding makes selling easier. When clients recognize a brand, they are reassured and more loyal. For those reasons, the National Bank decided to use its main trademark – its name – to identify its subsidiaries and its products. Accordingly, Lévesque Beaubien Geoffrion was renamed "National Bank Financial" and InvesTel brokerage services became "National Bank Discount Brokerage". As for the Bank's insurance operations, both its general insurance activities and its subsidiary National Bank Life Insurance are grouped together under the signature "National Bank Insurance". The mutual funds offered by National Bank Securities are now known as National Bank Mutual Funds. After renaming its subsidiaries in order to capitalize on the strength of the parent brand, the Bank will be identifying the greatest possible number of its electronic and non-electronic products in a similar way.

Financial Markets, Treasury and Investment Bank

The Financial Markets, Treasury and Investment Bank encompasses all the financing services which the Bank and National Bank Financial offer to corporate and institutional clients, as well as the investment and trading operations which Treasury carries out on financial markets.

TREASURY

Treasury is responsible for operations on financial markets, which comprise the Bank's own management operations as well as hedging operations on behalf of clients. Management operations include liquidity and securities management, asset and liability matching, and hedging for certain financial instruments. Hedging operations enable clients to protect themselves against exchange or interest rate fluctuations as well as other changes that may occur on financial markets.

The Bank's strategic management focuses not only on its product offerings but also on its balance sheet and operating expenses. The Bank manages its balance sheet according to economic conditions and its own capital requirements. Methods such as securitization and loan syndication help to ensure that the Bank continues to grow and satisfy its clients, while minimizing risk and reducing required capital. In this way, we manage our growth in the best interest of all our stakeholders – our clients, our personnel and our shareholders.

Proud to be a "Caring Company"

The profits earned by the major Canadian banks year after year are always a hot topic of discussion. Frequently overlooked, however, are the large sums of money which the banks give back to the community in the form of charitable donations. Each year, the National Bank receives some 3,500 requests for donations of all kinds. After a careful selection process, it distributes a total amount corresponding to 1% of the previous year's net income in the form of donations and sponsorships. In 2000, the Bank donated close to $4 million to non-profit organizations that it deems capable, well run and able to pass on a sizeable percentage of donations received to those they seek to help. The Bank has been recognized for its generosity in recent years, notably by United Way/Centraide and the *Chambre de commerce de Québec*. It is also recognized as a "Caring Company" by the Canadian Centre for Philanthropy, a charitable organization that has encouraged more than 500 organizations to commit to donating at least 1% of their net income, and to promote community involvement among their employees.

NATIONAL BANK FINANCIAL

National Bank Financial, a wholly-owned subsidiary of the National Bank, was formed in September 1999 following the integration of Lévesque Beaubien Geoffrion with First Marathon Inc. It employs more than 2,400 people in 108 branches across Canada and boasts a business volume in excess of $800 million. Its mission is to offer comprehensive, integrated brokerage services and sound advice to investor clients, be they institutions or individuals.

National Bank Financial enjoys a prominent position among Canada's securities firms, investment banks and commercial lenders. Its strong presence on stock markets enables it to accompany its clients everywhere in Canada. In addition to mobilizing capital for corporations and the public sector, the investment banking arm of National Bank Financial provides advisory services, particularly in the area of mergers/acquisitions and restructurings.

Through its involvement in NB Capital Partners and its collaboration with the Bank's Corporate Banking unit, National Bank Financial also acts as a merchant bank by investing in the capital stock of companies which may or may not be listed on a stock market.

The Corporate Banking unit of the Bank comes under the functional authority of National Bank Financial's Corporate Financing Services, thereby ensuring the close cooperation that is essential when it comes to proposing innovative, seamless financing solutions to large corporations.

National Bank Financial holds a dominant position in all areas of corporate financing in Quebec while enjoying an enviable position in brokerage and institutional financing elsewhere in Canada. In Quebec, it is the most complete independent source of financial and economic information. On Canadian financial markets, it is a force to be reckoned with.

National Bank Discount Brokerage, a wholly-owned subsidiary of the National Bank since 1999 and now integrated with National Bank Financial, offers clients a vast range of financial products and investment tools. Its clients can also carry out their trades via its InvesNET website and Dial-A-Quote automated telephone service. The mission of this subsidiary is to ensure that investors have access to a complete line of securities products backed by efficient service and useful advice on all matters relating to mutual funds and registered accounts so that they can maximize their investment returns while minimizing their costs.

BDC/National Bank alliance

On May 4, 2000, the National Bank announced a strategic alliance with the Business Development Bank of Canada (BDC) aimed at providing small and medium-sized enterprises across Canada with better access to capital and consulting services. The National Bank and BDC will work together to offer a comprehensive line of financial products and services to innovative businesses that are focused on growth and exporting. Among the enterprises targeted by the alliance are SMEs operating in the knowledge-based sector, along with manufacturers and exporters with innovative approaches or that wish to increase their productivity. A combined pool of $100 million was allocated for the term financing of assets, both tangible and intangible, as well as expenses related to the development of international markets. Through this alliance, BDC and the National Bank can design tailored solutions for companies wanting both to increase productivity and to compete in international markets. The BDC, a financial institution wholly owned by the Government of Canada, plays a leadership role in delivering financial and consulting services to Canadian SMEs, with a particular focus on businesses in the technology and export sectors.

Our partnerships

As a way of enhancing its efficiency in a constantly evolving marketplace, the National Bank has entered into a variety of partnerships in recent years. These partnerships are structured in many different ways.

In June 2000, ownership and all the operations of our technology subsidiary SIBN were transferred to COGNICASE in exchange for a 35% interest in its share capital. The goal of this partnership is to enable the Bank to expand its banking product and service offerings to clients, particularly by developing e-commerce and e-brokerage solutions. The growing importance of technology for our clients and our need to compete effectively with new players in the banking and financial services industry were key factors in our decision.

Among the many other examples of partnerships that we could cite, of particular interest this past year were: a strategic alliance with the Business Development Bank of Canada (BDC) to give SMEs better access to capital earmarked for innovative growth- and export-oriented businesses; a partnership agreement between National Bank Securities and Fidelity Investments to launch five new mutual funds under the "National Bank/Fidelity" banner; and, in cooperation with Microcell Solutions, a Fido cellphone that lets users access transaction data on their accounts at the National Bank.

Alter Moneta, which specializes in equipment financing, was created in 1998 as a partnership between the National Bank (73%) and the *Caisse de dépôt et placement du Québec* (27%). Its mission is to make lease financing and instalment sales credit available to commercial enterprises for purchasing commercial or industrial equipment. As a result of this partnership, the Bank's commercial clients can finance equipment purchases valued at between $100,000 and several million dollars and, in certain cases, obtain credit approval for the transaction in just one hour.

Functions that are not an integral part of the Bank's primary mission of distributing high quality financial products and services to its clients have been delegated to external suppliers. From a competitive standpoint, it is more efficient and more economical to outsource certain tasks, such as form printing or information technology operations management. For example, by means of selective outsourcing to Bell Canada in 1999, the Outsourcing Management and Intranet Department gained access to more advanced technology while saving several million dollars on our telecommunications network. In addition, our strategic alliance with ISM, an IBM subsidiary, has yielded substantial economies in the cost of information technology operations and provided us with better, faster and less risky access to new technologies.

In the many regions where the National Bank is present, various types of partnership initiatives have been developed in order to promote our competencies and maximize the return on our investments. For instance, the Abitibi-Témiscamingue Regional Centre and TelNat joined forces with Télébec and A. De La Chevrotière to establish a Customer Interaction Centre in the Rouyn-Noranda area, which will offer companies the option of outsourcing their telephone-based customer service, order taking, telemarketing, surveys, etc. The centre is expected to create 150 jobs over the coming five years.

Our clients can count on an international network consisting of offices in Paris, London, New York, Nassau, Hong Kong, Seoul and Beirut. Furthermore, through cooperation agreements signed with financial institutions in France, Belgium, Germany, Austria, Italy, Portugal, Spain and the United Kingdom, together with a network of 2,800 banking correspondents covering more than 120 countries, the National Bank can boast an international character that enables it to serve its clients wherever they do business.

Under an agreement concluded on April 4, 2000, the National Bank purchased 15% of the capital stock of *Banque Saradar* in Beirut for US $22 million. This transaction ties in with our global strategy to distribute our financial services

abroad while attracting clients that want to obtain financing in Canada.

In Chile, we teamed up with three U.S. venture capital companies and a local partner to form the CorpBanca consortium in order to purchase banking institutions in South American countries. As we expect a free trade agreement to be negotiated between North and South America sometime in the next few years, we want to position ourselves in this future market and thus assist our SME and corporate clients looking to do business throughout the Americas.

Since Quebec already accounts for 70% of our business, the National Bank's growth will depend to a great extent on markets outside the province. As Jean Turmel explained to *Commerce* magazine this past year: "Forging ahead on our own would take many years and a great deal of money. That is why we are considering strategic alliances."

This partnership trend, which continues to gain momentum, enables us to successfully meet our challenges and realize our business plan in terms of distribution, advisory services, global offerings, geographic diversification and profitability.

Our products and services

At the start of the year 2000, the National Bank counted among its clientele 2,280,000 individuals, 125,000 SMEs and 1,210 government and public sector agencies, all of whom rely on us to offer them made-to-measure products, services and advice. The Continuous Improvement Program was introduced in response to this demand, the goal being to have specialized teams, backed by new banking technologies, to handle transaction and administrative duties and thereby give our personnel in the field more time to develop their markets, services and customer relationships.

Since 1999, the Bank has nurtured, in particular, the close relationship it enjoys with its 125,000 business clients by creating private banking centres. Their role is to address the personal banking needs of these business leaders by offering them comprehensive financial planning services adapted to their personal and family situation and encompassing investments, financial security, retirement and estate planning as well as tax and trust services. Because their financial needs are more complex, these affluent clients are looking for more than just a choice of products and services; they want an overall financial planning strategy that involves many of our subsidiaries.

This value-added, cross-selling philosophy translates, in concrete terms, into recognizing the specific characteristics of each client group by age, income, behaviour, lifestyle and other distinguishing socio-economic factors. The next step is to make the right offer to the right client at the right time, in the right place and, most importantly, in the right way.

The number of self-employed people has jumped by 80% since 1980, reaching half a million in Quebec alone.

National Bank and Microcell join forces to launch wireless services on Fido

On March 10, 2000, the Bank and Microcell Solutions, a subsidiary of Microcell Telecommunications, jointly launched financial services available on Fido handsets. The new wireless financial services allow customers to check balances on bank accounts, lines of credit and credit cards as well as to access their most recent bank account and credit card transactions. Users can also be connected to the customer service departments of both the National Bank and MasterCard, all from a menu displayed on a Fido handset with a user-friendly interface. These services are initially being offered to National Bank customers in Quebec and the Ottawa-Hull region, and can be accessed from any area served by Microcell's PCS (personal communications services) network in Canada.

According to May 2000 statistics, there were more than 300 million wireless telephones in the world, or three times the number of personal computers connected to the Internet. By 2003, the number of web-ready wireless telephones is expected to exceed the number of PCs plugged into the Internet. New services adapted to wireless technology will enable users to check their accounts before making a purchase, transfer money between bank accounts, pay bills, check their recent transactions and even be warned by a special tone when their accounts approach a critical level.

During the past decade, the number of female entrepreneurs has risen 3.5 times faster than that of male entrepreneurs, with women now accounting for one-third of Canada's entrepreneurs. Those are just two of the niches in which the Bank has chosen to excel. Since 1997, the Wealth Management group has been focusing on the advisory aspect of financial planner and personal banker functions in order to better serve this type of high potential client.

As the bank of SMEs, the National Bank does not want to confine itself simply to being a partner for businesses and their corporate operations. It also wants to be a partner for the people who founded those businesses, who run them and who have personal financial needs as well. We believe that our institution is the best placed to ensure their complete satisfaction.

Internet_Direct•N@t, the Bank's online banking facility

The National Bank makes banking information and transactions even easier to access with its Internet_Direct•N@t service, which gives customers instant access to information on their financial position. Located on the National Bank's website, the Internet_Direct•N@t service enables customers to check the balance of their National Bank bank accounts, investments, lines of credit, loans and credit cards. Personal finances become easier to manage as customers can find out their exact position at any given time. The service also gives individuals and self-employed people who have a Client Card the option of doing their banking on the Internet, in complete security, whenever they wish. In addition to accessing bank account information which can be downloaded to a personal finance program (such as Quicken™, Money™ or Makisoft™), customers can choose to carry out their main banking transactions, such as transferring funds and paying bills, either right away or by post-dating them. A demonstration of the service is available by clicking on Direct•N@t on the Bank's home page at www.nbc.ca.

To serve its commercial clients, the Bank has not hesitated to form teams offering financing or import-export solutions in the agriculture, technology, energy and audiovisual sectors. After only three years in operation, our T.V. and Motion Picture Group is already the leader in the Quebec audiovisual industry, managing over $150 million in assets which represent more than 200 film or television projects.

The National Bank also helps its business clients to get the most out of technology and e-commerce opportunities. Our initiatives in this area include balance aggregation with interest paid, packages for the self-employed, the AgriNat and FlexBusiness packages, the Business Latitude card for small businesses, financial packages for professional groups, the modules in the ClicCommerce family (ClicPayment, ClicStatement and ClicServices) and the Smart Data purchasing management software.

In addition, we spare no effort in creating new positions and new career paths that link the Banking sector and our subsidiaries. Examples of this include personal bankers and financial planners for individuals, and managers – global cash management for business clients.

Without an effective system for providing advisory services, competent staff and targeted resources management, even the best products would simply gather dust on the shelf. Ongoing training programs for our personnel, codes of professional conduct, ombudsman services, incentive prizes and rewards, profit-sharing and share ownership programs are some of the vehicles we use to keep and attract high-calibre, motivated, creative employees who are proud to work for the National Bank and its clients.

Our physical network

Focusing more on advice than transactions, the National Bank's approach when it comes to branch development is motivated by the desire to make consumers' lives easier. We have continued to expand our network by opening branches where consumers are likely to be.

A new branch strategy has also been deployed as a way of further developing promising niches and markets. Using client segmentation, we have started to target certain client groups by creating financial service centres, banking centres, business centres and private banking centres.

A pilot project is currently under way in the Quebec City suburb of Sainte-Foy, whereby our clients can meet with a financial services manager from TelNat by way of videoconferencing technology. In addition, with the integration of the Direct•N@t Plus virtual branch, the TelNat Call Centre will be able to grant loans by telephone. A virtual commercial branch called Direct•N@t SME has also been launched so that small business clients can do their banking from off-site locations.

The Bank has begun setting up some 20 new Alliance branches, mainly in supermarkets, but also in other retail locations such as drugstores, convenience stores and post offices. These branches are an economical, efficient way for us to get closer to our customers. Increasingly, we are going to them rather than having them come to us. For instance, our mortgage development managers and representatives from National Bank Financial Services, AssurNat and our retirement planning unit meet with clients at their home or at any other location of their choice.

All the major financial institutions are competing with each other to attract a share of the billion dollar nest egg that Canadian baby boomers have started inheriting from their parents. The National Bank has chosen to open financial service centres and private banking centres for its high potential clientele.

The decision to establish financial service centres throughout Quebec was made after due reflection on clients' expectations in terms of a comprehensive solution for managing all their financial needs. Like our private banking centres, financial service centres are another way of consolidating our services in a single location for the benefit of clients who have little time to spend on financial management and who want experts to manage all aspects of their

personal finances. Whether they are looking for personalized financial planning, stock market investments, mortgages, insurance, assistance with tax returns, etc., customers who are not necessarily affluent can find all they need in the form of an "all-inclusive" financial package, under one roof.

Canada will soon be transformed from a credit-oriented consumer society to an investment-oriented wealth accumulation society. The National Bank has a strong competitive edge in this market because we already have a good understanding of our entrepreneurial clients who belong to the baby boom generation. We plan to open a number of private banking centres during the coming years in order to capitalize on this demographic phenomenon. This large subsection of the Canadian population is making the transition from borrower to saver, resulting in a greater demand than ever for financial planning services. As part of our strategy involving personal bankers and private banking centres, the Bank will have over 300 full-time financial planning professionals by 2002, up from 100 in 1996.

The technological advances in recent years have enabled the National Bank to restructure its operations and free its branches from many administrative tasks and credit operations. Branch managers are therefore able to focus on recruiting clients and developing their local markets. Accordingly, it is not uncommon to see our managers involved in community activities, becoming members of associations and building relationships with the business people and development officers in their region. Since branches now offer a variety of trust, brokerage and insurance services, branch managers cannot be specialists in every area. Instead, their role is to manage a multidisciplinary team and motivate their personnel in much the same way as the owner of an SME.

The Bank's online job source: www.nbc.ca/careers

The National Bank's website is also a gateway for Web surfers interested in applying for jobs offered by the Bank. At www.nbc.ca/careers, job-seekers can find complete information on openings and career opportunities at the National Bank, related remuneration, working conditions, training programs, and more. By using the site's interactive application, job-seekers can update their personal information and their resumés in strict confidence. This technology also provides the Bank with a powerful tool for managing its inventory of applicants, among other things, by matching the data in the individual's file with the hiring criteria established for a position.

Our electronic network

Technological development at the National Bank encompasses many aspects, each of which forms part of the same goal: putting technology to work for our clients. New technologies give clients rapid access to the Bank and make it easier for them to manage their finances and banking operations.

For our individual clients, banking machines, Interac Direct Payment and TelNat telephone banking were only the first wave of new technologies to arrive on the scene. Today, Direct•N@t and Direct•N@t Plus serve as virtual Internet branches where clients, seated at their own PC, can keep track of their accounts, calculate their personal balance sheet, do their banking, pay bills, purchase deposit products, complete credit applications and obtain personalized financial advice. They can also download transaction data into their personal finance software.

Approximately 85% of all banking transactions in Canada are carried out electronically. With the number of banking machines in the Bank's network now at 802, for an increase of 7.8% over two years, the volume of transactions at these machines has risen 17.6% since 1998. At the National Bank, 79.5% of all transactions are carried out via our electronic network, mainly by way of banking machine and Interac Direct Payment but also through TelNat and Direct•N@t. Transactions done through traditional physical channels, namely, by cheque or at the branch counter, now account for only 23%.

A number of other products offered by the National Bank Group are accessible via the Internet. For instance, a full

Analysis of the Bank's quarterly results, available on the Internet

The conference calls that bring together financial analysts and Bank management each quarter when the results are released are now webcast live so that Net surfers and Bank shareholders alike can listen in on the discussion. The webcast includes a presentation by management to the financial analysts, followed by a question period. The archived version of the conference and additional information can be found in the investor relations section of the Bank's website (www.nbc.ca/investorrelations).

range of information technology and data communications services are available to our commercial clients: Direct•N@t SME virtual branch, payroll services, electronic data interchange (EDI), electronic payments and cash management.

SME clients who need payment and cash management services can turn to our ClicCommerce family of products, including ClicStatement, ClicPayment and ClicServices. Not only do these software tools create a virtual commercial branch for SMEs, they also allow them to pay bills issued by any private supplier and to make income tax and sales tax remittances via the Internet. Moreover, data on electronic funds transfers can be integrated easily into the accounting software programs generally used by SMEs. By paying bills and making remittances via the Internet, businesses simplify the payment process, minimize the risk of error and save both time and money.

In addition to producing most of these services, our partner COGNICASE offers e-commerce advisory services and, for corporate clients, provides management software.

The Bank's technological development has also had an impact on internal management. Indeed, the new technologies developed in the past few decades have revolutionized bank management in general. Accounting, reports, documents, capital allocation models, securities trading, risk simulations and credit evaluations have all been computerized and automated sales platforms have been deployed in branches. In terms of innovation, the National Bank has been in the forefront for many of these new management technologies.

In Ontario, we have also created an extremely promising new sector called Alternate Channels, which consists of three business units: mortgage services, broker services and agent services. As a result, the Bank's products can be distributed electronically by approximately 1,200 brokers, ensuring better diversification of our revenue streams outside Quebec.

The explosive growth in electronic networks and the Internet has transformed the technological and commercial landscape. We are an active participant in this new world and our various client groups already benefit from a virtual Internet branch. Increasingly, we will be able to accompany our clients as they enter the e-commerce era. That is the first stage of our Internet strategy.

The next stage will be to reconfigure our communications infrastructure so that all our offices, agencies and subsidiaries can access the same universal sales platform through secure, reliable Internet connections.

The National Bank is committed to taking full advantage of the Internet and has every intention of allocating the necessary resources to exploit this new opportunity. Integrating the Internet into our global strategy will increase our capacity to manage increasingly complex financial products and services efficiently and provide valuable support to our clients in the e-commerce universe.

Thanks to these new technologies, the Bank has retained its human dimension while offering our clients leading-edge services.

Our employees

The National Bank has over 16,600 employees, three-quarters of whom are women and one-third of whom have been with the Bank for more than 15 years. The average age of our employees is 39. With over one-third of our employees owning National Bank shares, our personnel holds about 2% of the Bank's share capital.

As we want our employees' contributions and efforts to be directly linked to the Bank's financial results, we have developed increasingly precise ways of measuring our results. For example, for the purpose of our Incentive Compensation Program, the Bank uses growth in net income and the return on common shareholders' equity (ROE) to compare its performance to that of the other major Canadian banks.

We regularly conduct employee opinion surveys in order to identify the expectations and needs of our personnel. The Taking a Look at Our Organization survey, now in its third edition, is designed to measure all the factors that have an impact on our employees' level of participation and commitment vis-à-vis the Bank. The results can then be compared with those of our peer group in the market. Bank management and senior officers in the regions and sectors use the findings of the survey to draw up action plans aimed at creating an even more stimulating and innovative work environment.

The Bank's employees are expected to continuously upgrade their knowledge and improve their professional skills so that they can give clients advice that meets their particular needs. Our personnel ensure their professional development by taking courses on wealth management, will and estate planning, insurance, portfolio and risk manage-

ment, etc. On its own or in cooperation with educational institutions, the Bank has set up a number of training programs for its employees. It is through these key programs that we will meet the challenges ahead and successfully complete the shift towards providing advisory services. One such example, the National Bank University Program, was created specifically for employees who want a university education that focuses on financial services. The University Program is also responsive to our markets' needs. For instance, given the growth in our agribusiness sector, the Bank and its education partners have introduced a new master's program in agribusiness financing.

Our institution's visibility and its contribution to economic and social development in the community depend first and foremost on our employees. The Bank and its employees are never lacking in imaginative ways to make us better known in the community, most notably by being involved in conferences, fundraising initiatives, sponsorships, our client recognition program The SMEs of the National Bank, universities and other educational institutions as well as by participating in trade shows and fairs.

Through its organization, management, subsidiaries, partners, products, network, employees and know-how, the National Bank is in a stronger position than ever to seize opportunities in the Canadian and global financial services market.

The National Bank, COGNICASE and HEC business school launch an e-commerce portal

These three institutions formed an e-commerce joint venture with a view to creating and operating an Internet business portal for the promotion and marketing of services, teaching materials and specialty publications. The portal will give users access to personal portals and personalized notification services via both the Internet and wireless devices. It will make the HEC's intellectual capital more accessible to its 40,000 students and alumni, as well as businesspeople interested in the expertise and know-how developed by the *Université de Montréal* business school.

Taking full advantage of favourable economic conditions in North America, we increased our income and revenues, consolidated our financial base and enhanced our profitability.


RISK MANAGEMENT
SOUND
GUARANTEES
PEACE OF MIND

Economic environment in 2000

In 2000, the global economy enjoyed its best year since the late 1980s. Demand was especially robust in North America as well as in the euro zone where economic activity accelerated, unemployment declined and both consumer and business confidence increased. However, the troubling depreciation of the euro prompted monetary authorities to raise their bellwether rate and intervene in an attempt to halt its decline, but their efforts met with limited success.

In Asia, even though the Japanese economy remained sluggish, most countries in the region experienced a second consecutive year of vigorous growth. The economic and financial crisis, which hit Asia hard in 1998, now seems to have faded to a bad memory, although the region remains particularly sensitive to higher oil prices and an economic slowdown in the United States.

The U.S. economy grew by more than 5% in 2000, its strongest showing since 1984. It slowed dramatically in the second half of the year however, bringing the pace of growth back to a more sustainable level. Rising oil prices and the emergence of new inflation risks triggered an increase in the U.S. consumer price index but, excluding energy, inflation remained relatively moderate mainly because of substantial gains in business productivity. Nevertheless, the Federal Reserve opted to hike its bellwether rate by 100 basis points in order to prevent a flare-up in inflation.

Growth in Canada was also very solid in 2000 and showed no signs of abating during the year. Overall growth reached 5% – a rare feat in the last 20 years – and domestic engines of growth (i.e., consumer spending and investments) were very strong.

For the fourth straight year, employment advanced at a brisk clip and as a result, consumers were finally able to see a significant increase in their real income. This was reflected in household demand in 2000.

Companies continued to invest heavily in machinery and equipment despite a weak dollar which reduced their purchasing power.

Excluding energy, inflation was completely non-existent in Canada in 2000. Nonetheless, the Bank of Canada raised its key rate by 100 basis points in the course of the year, partly to prevent inflationary pressures from building and partly to boost the weak Canadian dollar.

In Quebec, the Bank's core market, employment growth during the year was less dynamic than in previous years. However, consumer demand remained firm and economic growth was strong. Growth this year is expected to be just shy of the Canadian average after surpassing the average in 1999.

For Quebec's manufacturing sector, 2000 was a particularly good year with output rising by close to 10%, while the increase in business investment is expected to exceed the Canadian average for the third year in a row. Quebec's business climate has not been this buoyant in many years. Major changes in the province's industrial base during the 1990s, especially in the Montreal area, have clearly paid off.

Outlook for growth

In 2001, the world economy will lose some steam as a result of slower economic growth in North America and Europe. However, global activity will remain firm.

For Canada, the U.S. slowdown will translate into a downturn in exports, but the strength of domestic engines, which have finally been given a boost by tangible tax relief, will ensure sustained economic growth over the next two years. More tax relief will nevertheless be essential.

The chronic weakness of the Canadian dollar is a heavy burden for Canadians. Its depreciation is a serious threat to wealth creation as it limits gains in productivity by eroding purchasing power and productive investments by Canadian companies. In the 1990s, Canada slipped even further behind the United States and the other G7 countries with respect to productivity. In order to catch up, Canadian companies will have to redouble their efforts.

For Quebec, the future looks bright. The economic and structural progress made in recent years has put the economy in an excellent position. The industrial base is the most diversified in the country and leading sectors are well represented. However, the heavy tax burden borne by Quebecers threatens to curb economic growth in the province.

Stock markets

A softening U.S. economy, companies' inability to pass on to consumers their higher production costs (due to climbing energy prices), and the higher cost of capital have made investors sceptical about the ability of U.S. stocks to continue their upward momentum.

Despite the marked decline in the industrial products sector, the Canadian stock market performed very well compared to the other stock markets in the world.

Implications for the Bank

Even with the Canadian stock market's relatively strong performance, foreign investments continued to grow in popularity, a trend that may have been encouraged by the increase in the foreign content limit for RRSPs.

The gloom surrounding the stock markets has so far had little impact on the investment decisions being made. Mutual funds and securities remain the most attractive investments for a growing number of investors. GICs with returns linked to the performance of financial markets have also been very successful with clients.

The high level of consumer confidence and the noticeable rise in personal disposable income have led to an increase in consumer borrowing, in the form of both personal loans and mortgages.

Canada's vigorous economic growth and the optimistic outlook augur well for the further expansion of Canadian companies. The National Bank is well positioned to support these companies in achieving their growth potential by offering them the best financial solutions for their needs.

Overview of results

This section of the annual report contains management's analysis of the Bank's financial condition and operating results, based on the Consolidated Financial Statements and on the tables included in this annual report. In the analysis below, the components of total revenues are expressed on a taxable equivalent basis.

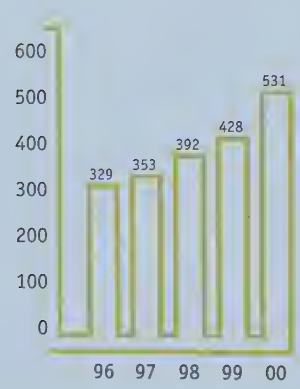
The National Bank's annual results once again attest to the success of its growth and expansion strategy despite an increasingly competitive environment.

For fiscal 2000, income before goodwill charges surpassed the half-billion dollar mark to reach $531 million or $2.66 per share, compared to $428 million or $2.30 per share in 1999, for an increase of 24%. If goodwill charges are taken into account, net income was $509 million, or 22% higher than in 1999. This marks the eighth consecutive year of growth in the Bank's income.

Performance in fiscal 2000 was driven primarily by strong revenue growth. At $3.3 billion, total revenues were up 27.9%, mainly because of substantial growth (+55.9%) in other income. At close to $1.97 billion, other income exceeded net interest income, which itself rose by 1.1% to slightly over $1.33 billion.

Return on common shareholders' equity before goodwill charges increased from 15.5% in fiscal 1999 to 16.0% in fiscal 2000. This was the Bank's best ROE performance in five years, although at no time has its ROE been lower than 14.5%.

Income before goodwill charges
(millions of dollars)



The Bank has been careful to ensure sustained growth in the dividends it pays out on its common shares. In 2000, the Board of Directors declared a dividend of $0.75 per common share, which was $0.05 or 7.1% more than in 1999. Over the years, the dividend has risen from $0.40 per share in 1993 to $0.75 per share for the past fiscal year. The dividend per share represents 29.5% of the Bank's net income per share of $2.54.

Total return to common shareholders for the year (common share price appreciation plus dividend) was 44.5%. National Bank shareholders have therefore received a compound average annual return of 22.2% for the past five years.

One of the major events of the year was the sale of SIBN Inc. to COGNICASE INC. on June 1, 2000. Under the agreement, the National Bank sold SIBN, its information technology and e-commerce subsidiary, to COGNICASE in exchange for common shares. The Bank also invested $20 million in its new high-technology partner, bringing the total number of COGNICASE common shares held by the Bank to 9,291,008, or approximately 35% of shares. The gain recorded on the sale of SIBN to COGNICASE was $105 million ($136 million on a taxable equivalent basis).

The year's results reflect the strategic decisions concerning internal restructuring and operations management made by the Bank with a view to enabling employees to focus on the key aspects of their work and thereby strengthen the Bank's service offering to its various client groups. These decisions set the stage for achieving the fiscal 2000 results, and the Bank now seems to be positioned more favourably than ever to meet the challenges of the year ahead.

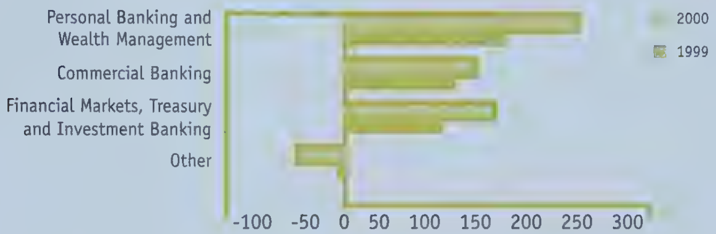
In the face of keen competition, rapid changes in technology and the increasing demands of its customers, the Bank is convinced that the way to further grow its earnings is to continue to implement its business plan while keeping a close eye on costs.

Results by business segment

The Personal and Commercial Bank and the Financial Markets, Treasury and Investment Bank are the two main components of the National Bank. Data for the Personal and Commercial Bank are further broken down into two segments – Personal Banking and Wealth Management, and Commercial Banking – while results for the Financial Markets, Treasury and Investment Bank are not segmented.

In fiscal 2000, Personal Banking and Wealth Management accounted for 44% of the Bank's income before goodwill charges (excluding the Other segment), Commercial Banking accounted for 26%, and Financial Markets, Treasury and Investment Banking for 30%.

Change in income before goodwill charges
(millions of dollars)



In Personal Banking and Wealth Management, income before goodwill charges climbed a remarkable 43.3% to reach $258 million for the year as a result of growth in other income, which rose from $718 million to $966 million for a 34.5% increase over 1999. More than 75% of the increase was attributable to revenues from individual investor services at National Bank Financial and the inclusion of one full year of revenues from the correspondent network acquired with First Marathon in 1999. Net interest income was $917 million, for year-over-year growth of 7.3%, mainly because loan volumes rose by $1.3 billion while deposits from individuals and small businesses also grew by a similar amount.

Results by business segment
Personal Banking and Wealth Management
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	2000	1999
Net interest income	**917**	855
Other income	**966**	718
Total revenues	**1,883**	1,573
Operating expenses	**1,365**	1,188
Provision for credit losses	**90**	91
Income before income taxes and non-controlling interest	**428**	294
Income taxes	**170**	111
Non-controlling interest	**—**	3
Income before goodwill charges	**258**	180

Income before goodwill charges in Commercial Banking was also up (+16.5%), as were net interest income (+9.9%) and other income (+8.4%). Income rose from $133 million in 1999 to $155 million in 2000, net interest income from $342 million to $376 million, and other income from $119 million to $129 million. This performance can be traced primarily to the approximately $1 billion growth in loan volumes, divided almost equally between domestic and U.S. operations.

Results by business segment
Commercial Banking
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	2000	1999
Net interest income	**376**	342
Other income	**129**	119
Total revenues	**505**	461
Operating expenses	**190**	178
Provision for credit losses	**63**	65
Income before income taxes	**252**	218
Income taxes	**97**	85
Income before goodwill charges	**155**	133

The results of Financial Markets, Treasury and Investment Banking for fiscal 2000 improved compared to its past performance and augur well for its future success. Income before goodwill charges grew by 46.6%, chiefly as a result of the contribution from treasury operations. It climbed from $118 million in 1999 to $173 million in 2000, fuelled by 67.7% growth in total revenues.

Results by business segment
Financial Markets, Treasury and Investment Banking
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	2000	1999
Net interest income	**112**	138
Other income	**562**	264
Total revenues	**674**	402
Operating expenses	**362**	190
Provision for credit losses	**16**	16
Income before income taxes and non-controlling interest	**296**	196
Income taxes	**122**	72
Non-controlling interest	**1**	6
Income before goodwill charges	**173**	118

In short, the strategies deployed by management to finalize the integration of the various components of National Bank Financial with the Bank's other departments and harness their synergies have already begun to bear fruit. The development and deployment of active portfolio management, the use of derivatives and the finetuning of management techniques for high-yield bonds are some of the reasons for the remarkable performance turned in by Financial Markets, Treasury and Investment Banking.

The sectoral and geographic diversification resulting from the acquisition of First Marathon should ensure that the Bank's portfolio risks are more balanced and make revenue streams more stable. This acquisition should also ensure that National Bank Financial will continue to derive most of its institutional revenues (i.e., from business corporations, the public sector and other institutions) from outside Quebec.

Income and expenses

NET INTEREST INCOME

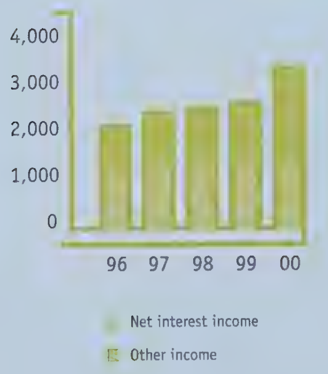
Net interest income is comprised of interest and dividend income earned on total assets less interest expenses on total liabilities. It is the difference between what the Bank earns on assets such as loans and securities, and what it pays on liabilities such as deposits.

In 2000, net interest income on a taxable equivalent basis was $1.33 billion, for an increase of $14.7 million or 1.1% over the previous year. It represented 40% of total revenues versus 51% in 1999. The interest margin narrowed slightly, from 1.90% in 1999 to 1.81% in 2000 (see Table 2, page 42).

To analyze net interest income properly, loan and deposit activities must be separated from capital market activities. For Personal Banking and Wealth Management, net interest income was up $62 million or 7.3%, and the interest margin increased from 3.44% in 1999 to 3.49% in 2000. For Commercial Banking, net interest income grew by $34 million or almost 10%, and the interest margin widened by 6 basis points to 2.56%.

These increases in net interest income were largely offset by an $81 million reduction in net interest income from Financial Markets, Treasury and Investment Banking and the Other segment – a phenomenon attributable particularly to treasury operations, for which certain revenues are recorded as other income while the funding costs are deducted from net interest income. Moreover, securitization activities reduced net interest income by some $35 million compared to 1999.

Change in total revenues
(taxable equivalent basis)
(millions of dollars)



OTHER INCOME

Other income includes all revenue except for interest and dividend income. It consists of such items as deposit and payment service charges, lending fees, capital market revenues, card service revenues, investment management and custodial fees, mutual fund revenues and revenues from securitization (see definition of securitization in the Glossary of Financial Terms, page 51).

Other income for the year amounted to $1.97 billion, for an increase of $707 million over 1999, and represented 58% of total revenues (excluding the $136 million gain on the sale of a subsidiary), as against 49% in 1999. As Table 3 on page 43 shows, this performance can be traced mainly to an increase in fees on lending activities, acceptances, letters of credit and guarantee (combined growth of +15.1%), trading activities and gains on securities (+172.5%), capital market fees (+69.9%) and card service revenues (+19.6%). The increase in fee income from lending activities, acceptances and letters of credit and guarantee was generated by higher volumes as well as pricing adjustments based on the risk profile of credits granted.

Additional securitization activities at the end of fiscal 1999 were primarily responsible for the growth in card service revenues. From time to time, the Bank elects to securitize some of the components in its portfolio as a way of diversifying its funding sources and reducing credit risk.

The rise in capital market fees was due to the acquisition of First Marathon in 1999 and its contribution throughout the year to the operations of National Bank Financial. By combining Lévesque Beaubien Geoffrion and First Marathon, the Bank created a nation-wide securities brokerage firm and investment bank, which enabled it to grow its capital market revenues from $336 million in 1999 to $571 million in 2000. Capital market fees alone accounted for 29% of other income, with trading activities and gains on securities representing an additional 16.6%.

The $136 million taxable equivalent gain from the sale of the subsidiary SIBN to COGNICASE was responsible for most of the 92.7% growth in the "Other" category in Table 3 between 1999 and 2000.

In 1990, other income accounted for 32.7% of the Bank's total revenues; in 1995, it represented 37.8%; and in 2000, other income, excluding the gain on the sale of a subsidiary, made up 57.9% of the Bank's total revenues. This growth was in line with the Bank's goal of diversifying its revenue streams and earning at least half of its revenues from sources other than interest. This goal has now been achieved.

PROVISION FOR CREDIT LOSSES

Provisions for credit losses are amounts credited to the allowance for credit losses taken to absorb credit-related losses (loans, acceptances, guarantees and letters of credit). A loan is considered impaired when there is reasonable doubt as to the payment of principal or interest. Any loan where payments are 90 days past due falls into this category, unless there is no doubt as to the collectibility of principal and interest.

The Bank increased its provision for credit losses slightly (+8.1%) in 2000 ($200 million as against $185 million in 1999). As Table 4 on page 43 shows, credit losses were up $10 million in the corporate sector, where they had been particularly low during the previous two years. The $11 million increase in the provision for loans to individuals and small businesses was partially offset by a $6 million reduction in the commercial sector's loss experience.

In the United States, commercial sector losses were up $8 million – a relatively modest rise for a portfolio of over $4.8 billion, which itself grew by close to 10% during the year. The increase in losses was offset by a $7 million recovery in the U.S. real estate sector.

To evaluate its business units, the Bank uses the expected loss method which relies on a statistical study of the risk profile for each of its portfolios. Expected losses are allocated to each segment and the difference between those losses and actual losses is recorded in the "Other" segment. In 2000, the level of expected losses for business units did not vary significantly from that of the previous year (despite higher lending volumes) because of the improved risk profile for most of the portfolios.

As a percentage of net average loans and acceptances, the provision for credit losses on private-risk loans was down somewhat in the United States (from 0.35% in 1999 to 0.33% in 2000), whereas it edged up marginally in Canada (from 0.43% in 1999 to 0.47% in 2000). Overall, it was below the average for the past five years in Canada, while the provision for credit losses as a percentage of net average loans and acceptances was approximately 0.50%.

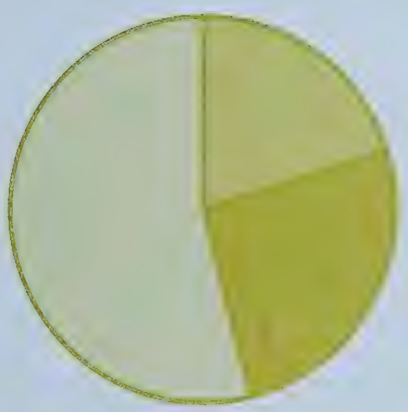
The provision of $200 million for the year, combined with write-offs less recoveries of $224 million, brought the allowance for credit losses to $965 million as at October 31, 2000. Total allowances were comprised of a general allowance of $500 million, specific allowances of $413 million and allowances for designated countries of $52 million.

OPERATING EXPENSES

The increase in operating expenses was attributable to growth in business, the inclusion of one full year of First Marathon expenses and the Bank's strategic development projects.

Operating expenses, over half of which (53.4%) consisted of salaries and staff benefits, rose 31.4% during the year to $2,184 million. Excluding the expenses of $120 million described later on, the increase was 24.2%. This increase stemmed from compensation (+31.5%), professional fees (+59.2%), capital and payroll taxes (+68.4%) and expenses for premises, computers and equipment (+13.1%).

Breakdown of operating expenses
(%)



Salaries and staff benefits	53.4%
Premises, computers and equipment	20.2%
Other	26.4%

The acquisition of First Marathon in 1999 and its gradual integration into National Bank Financial was one of the main reasons for the rise in several expense items.

Salaries and staff benefits totalled $1,166 million, up by $279 million. Variable compensation at the brokerage subsidiary National Bank Financial accounted for over two-thirds of this increase.

Human Resources management remains one of the Bank's strategic priorities, notably with respect to recruiting, training and retention. The personnel mix continued to evolve in line with the client groups the Bank is targeting and the key sectors it wants to develop, specifically financial advisory services, wealth management, commercial products and electronic services.

Professional fees accounted for $121 million of total operating expenses, compared to $76 million in 1999. More than 60% of this $45 million increase was attributable to the outsourcing of information technology development, and the remainder to the Bank's various strategic development projects.

The "Other" category contains non-recurring expenses of $30 million related to the Operational Excellence program, $25 million related to branch network restructuring, $18 million for accelerating upgrades to the electronic infrastructure, $28 million for the integration of First Marathon into National Bank Financial and $19 million in other non-recurring expenses.

The Bank launched its Operational Excellence program in June 1999, with the goal of reducing costs and optimizing support operations in order to achieve recurring savings of $100 million by the end of fiscal 2001, without compromising new technologies, the organization's manoeuvrability or customer service. The first phase of the program has already delivered significant savings following implementation of a more strategic approach to supply and service management. The recurring savings for the year from this phase amounted to approximately $26 million. The second and third phases involve revamping certain operating processes, eliminating duplication within the organization and implementing administrative partnerships. A recurring savings of some $7 million was generated in fiscal 2000. This program is vital to help the Bank maintain its competitive position vis-à-vis the other Canadian banks which have undertaken similar projects.

During the year, the Bank merged 69 branches as part of its network reconfiguration program. Including the new supermarket branches opened, the Bank's network consisted of 586 branches as at October 31, 2000, as against 649 a year earlier. In addition, the Bank installed 41 new banking machines, bringing the total to 802, for a 5.4% increase over 1999.

The Bank also made extensive updates to its electronic infrastructure, first of all, to ensure continued efficient processing of the constantly increasing number of electronic transactions performed by customers throughout its electronic network (more than 80% of all banking transactions) and, secondly, in order to support the development of online business solutions based on a reliable and upgradeable technology.

At 65.1%, the productivity ratio (see Table 5 on page 44) was slightly higher than in 1999 (64.4%).

As at October 31, 2000, the Bank and its subsidiaries had 16,600 employees, compared to 17,700 in 1999. The decline from 1999 is chiefly due to the sale of the subsidiary SIBN.

INCOME TAXES

In 2000, income taxes amounted to $259 million (see Note 14 to the financial statements, page 74). The Bank's effective tax rate was 31.8% in 2000 versus 34.1% in 1999. The decrease was chiefly attributable to the gain resulting from the sale of the subsidiary SIBN, which was considered a capital gain and therefore taxed at a lower rate.

Canadian chartered banks continue to be one of the most heavily taxed sectors in Canada. Taxes represent a significant fixed cost that negatively impacts the competitive position of the Bank. In its report Reforming Canada's Financial Services Sector, the federal government acknowledged that the banks' tax burden was somewhat excessive, and expressed its intention to review income and capital taxes in the financial services sector. Canada is still one of the few countries that collect income and capital taxes on financial institutions, which places us very much at a competitive disadvantage with foreign institutions.

Analysis of financial condition

ASSETS

The Bank's total assets stood at $75,827 million as at October 31, 2000, up 8.6% over the $69,801 million recorded a year earlier. This balance sheet growth is the result of a deliberate strategy aimed at reducing funding requirements and increasing profitability.

As shown in the Consolidated Balance Sheet on page 58, total consumer loans (residential mortgages plus personal and credit card loans) declined by $1,096 million or 5.6% compared to 1999. Mortgages fell from $12,569 million to $11,593 million (-7.8%) following the securitization of approximately $1.8 billion in loans, partially offset by the addition of close to $800 million in new loans. Personal loans went from $7,157 million to $7,037 million (-1.7%) following the Bank's decision to reduce indirect loan volumes which did not meet its profitability criteria. The Bank also securitized an additional $50 million in credit card loans at year-end.

The sum of cash resources (mainly deposits with financial institutions) and securities was up $1,997 million over 1999 (+9.7%). In 1999, cash resources and securities grew by only 1% ($202 million). As securities purchased under resale agreements also represent very liquid assets, they cannot be excluded when considering the variation in liquid assets. When these securities are included with cash resources and securities, the result is a $3,914 million or 16.3% increase in liquid assets.

Total business and government loans rose from $20,685 million to $22,712 million as at October 31, 2000, for an increase of $2,027 million (+9.8%). Both the commercial sector (in Canada and the United States) and the corporate sector contributed to this growth.

FUNDING

Deposits

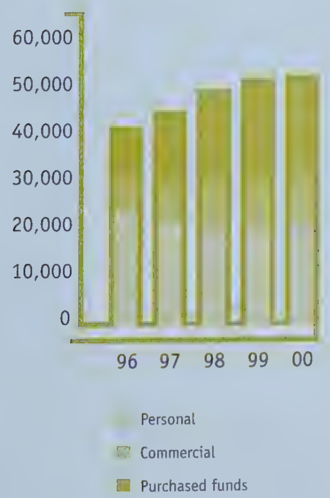
As at October 31, 2000, the Bank funded approximately 66.6% of its assets through deposits, compared to 71.6% in 1999. This reduction was attributable to a larger proportion of shareholders' equity, debentures and securities sold under repurchase agreements.

Personal deposits accounted for 40.6% of the deposit mix, commercial deposits for 19.3% and purchased funds (primarily deposits by other financial institutions) for 40.1%. Total deposits at the Bank were up by 1% and amounted to $50,473 million as against $49,984 million in 1999 (see Table 6, page 44).

The erosion in personal deposits which began in 1997 stabilized in fiscal 1999 and 2000, but the trend may well resume if individuals switch back to buying non-bank savings instruments such as mutual funds and other forms of stock market investments. For the time being, however, individuals seem to be shying away from the volatility of financial markets, preferring instead to take advantage of more attractive interest rates, all of which benefits bank deposits. Commercial deposits recorded the strongest growth (+11.3%), rising from $8,737 million to $9,726 million.

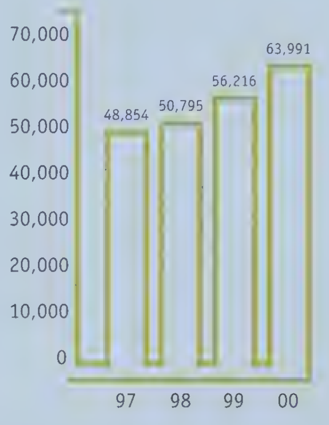
Assets under administration or management are a particular type of savings placed with the Bank but which are not reported on its balance sheet. Assets under administration are assets in respect of which the Bank provides administrative services on behalf of the clients who own them. These administrative services include custodial services, collection of investment income, settlement of purchase and sale transactions and recordkeeping. Assets under management (which may also be assets under administration) are assets managed by the Bank on behalf of their owners. Management services are more comprehensive than administrative services, in that they include selecting investments and offering investment advice.

Change in deposit components
(millions of dollars)



Whatever savings and investment instruments its clients choose, the Bank is able to respond to their needs, offering as it does mutual funds, securities brokerage and other forms of savings and wealth management services. The value of assets managed or administered on behalf of individuals posted an overall increase of $7.6 billion (+21.4%) for the year, to reach a total of $43.2 billion. When balance sheet deposits ($20.8 billion) are added, the result is a rise of $7.8 billion and an aggregate value of approximately $64 billion in personal savings placed with the Bank.

Change in total savings of individuals
(millions of dollars)



As shown in Table 9 on page 45, the value of assets under administration and under management totalled $118 billion as at October 31, 2000, representing 11.8% growth versus 1999. This asset category, which does not appear on the Bank's balance sheet, included $51.2 billion of assets administered on behalf of individuals by the brokerage subsidiaries. These assets were up 13.7% over 1999 and accounted for more than 40% of total assets under administration or management.

Mutual funds for which National Bank Securities is the promoter grew from $3.7 billion in 1999 to $4.4 billion in 2000, or 18.9%. The subsidiary Natcan Investment Management is active in portfolio management in addition to acting as manager for several National Bank Mutual Funds. These assets under management totalled $14 billion as at October 31, 2000, versus $12 billion as at the same date in 1999.

Capital

As at October 31, 2000, the Bank's total capital stood at $5,657 million (see Table 7, page 44), for an $878 million increase over 1999.

Capital is obtained through external financing – debenture and share issues – and from internally generated capital, or earnings not paid out as dividends. Internally generated capital totalled $340 million for the year, which approximates net income of $509 million less the dividend payout of $170 million. Compared to 1999, internally generated capital was up 16.4%.

External financing amounted to $538 million, including $326 million of debentures and $175 million of preferred shares issued to fund the Bank's operations and improve the regulatory capital ratios.

Change in shareholders' equity
(millions of dollars)

Following these financings, capital increased substantially from $4,779 million at 1999 year-end to $5,657 million at 2000 year-end. This 18.4% growth in the Bank's capital brought it to an historic high. Shareholders' equity (common and preferred shares and retained earnings) rose by 16% to reach a record high of $3,828 million.

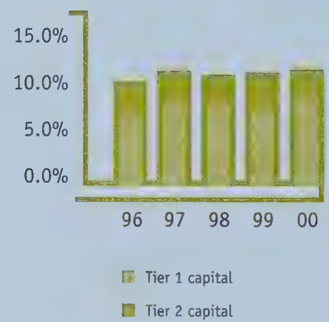
Regulatory capital is calculated according to the rules of the Bank for International Settlements (see Table 8, page 45). Including the US $250 million of debentures issued on November 2, 1999 in supplementary capital for 1999, the Bank's Tier 1 capital rose by 17.0%, while its Tier 2 capital fell by 15.0%. Total regulatory capital was up 7.3% at $5,221 million.

Regarding the calculation of risk-weighted assets according to BIS rules, it will be recalled that since 1998 trading account securities have been valued according to the standard of the Superintendent of Financial Institutions Canada concerning market risk. Market risk items therefore amounted to $2,098 million for fiscal 2000, for an increase of 93.7% (or $1,015 million) over 1999.

The Bank's aim is to slow growth in risk-weighted assets in order to maintain strong capital ratios. The balance sheet strategies used to achieve this include mortgage loan insurance from the Canada Mortgage and Housing Corporation, securitization of portfolio components and loan syndication. Total risk-weighted assets rose from $44,121 million in 1999 to $45,835 million in 2000, for an increase of only 3.9% – the smallest in five years.

The ratio of regulatory capital to total risk-weighted assets produced a Tier 1 capital ratio of 8.7% and a total capital ratio of 11.4% as at October 31, 2000. These are the highest ratios in five years and exceed the 7% and 10% minimum standards proposed by the Superintendent of Financial Institutions for well-capitalized institutions. In the National Bank's 1999 Annual Report, we wrote: "By utilizing strategies which include securitization, the elimination of less profitable portfolios and loan syndication, the Bank aims to achieve a Tier 1 ratio of 8% in the near future." One year later, this goal has been achieved.

Change in capital ratios
(%)



RISK MANAGEMENT

Risk management is the recognition and ongoing assessment of the material risks that could have an adverse impact on the Bank's ability to achieve its goals. This section contains a description of the various types of risk affecting the Bank's operations and the corresponding control methods and procedures used by the Bank, as well as an analysis of the Bank's balance sheet in terms of credit and interest rate risk, and an analysis of the risk in off-balance sheet activities (notably derivatives).

Analysis of balance sheet risks

Credit and interest rate risks represent the main risks for financial instruments on the balance sheet.

Credit risk management

In 2000, the Bank continued to apply very strict credit limits and procedures, and further refined its decision support systems. In the Commercial Banking segment, use of the RAROC capital allocation model ensures that credit terms and conditions more accurately correspond to the risks inherent in the credits granted. The Bank continues to carry out syndication activities in order to spread the risk in certain loans among several financial institutions and thereby meet the needs of borrowers while reducing risk for lenders. Securitization is also used to reduce risk by transferring it to others. In doing so, the Bank can then concentrate more fully on the sale and administration of credit.

These strategies have been successful as the Bank was able to substantially improve the quality of its portfolio in recent years.

The Bank's loan portfolio is very diversified (see Table 10, page 46). Close to 25% of outstanding loans are residential mortgages, 16% are personal loans (primarily consumer loans, credit cards and certain loans to small businesses), while the remainder are mainly business loans. These loans are made to businesses in every sector of the economy and represent close to half of the Bank's portfolio.

As Table 10 shows, residential mortgages were down $1,795 million as at September 30, chiefly on account of securitization activities. In addition to mortgage-backed securities, the Bank securitized close to $980 million in residential mortgages on properties of five units or more.

The distribution of business loans among the various sectors of the economy has not changed significantly from fiscal 1999. The Bank constantly monitors developments in the economic sectors in which its clients operate and, at the first warning sign, carries out simulations to evaluate the impact of various scenarios and to adapt its policies accordingly.

Gross real estate loans were down to $646 million as at October 31, 2000, a decline of 6.2% from a year earlier (see Table 11, page 46). Net volumes outstanding, less the $53 million allowance to cover potential losses in this sector, were $593 million, for a decrease of 5.1% from the previous year. Net real estate exposure represented only 15% of shareholders' equity at year-end (19% in 1999) and 1% of loans and acceptances. Four years earlier, in 1996, net real estate exposure represented 60% of shareholders' equity.

Just as in 1998 and 1999, gross private impaired loans for the year declined once again, from $978 million to $957 million (see Table 13, page 47). Net of allowances, their volume was up slightly (+4.8%) to $44 million. Reductions were recorded in the domestic individual and small business market (-10.2%), the commercial sector (-2.9%) and the real estate portfolio (-21.2%). The $20 million increase in impaired loans in the corporate sector was mainly attributable to a single large client. The $21 million increase in impaired loans in the U.S. commercial market was generated by higher business volumes with American SMEs. Only minimal increases were recorded in the other portfolios.

As a percentage of the $957 million in gross private impaired loans, the $913 million allowance for credit losses as at October 31, 2000 represented a provisioning rate of 95.4%. As a percentage of common shareholders' equity, net impaired loans declined yet again, to 1.3%, whereas in 1996 they represented 19.1%.

Controlling risk

Credit risk, market risk and liquidity risk are the three main risk categories. In addition, there are legal risks and risks associated with operations.

The risk related to a specific financial instrument (debt security or other type of security) is managed using a portfolio approach: the instrument is considered a component of a portfolio that may contain other balance sheet and off-balance sheet items.

CREDIT RISK

Credit risk is the risk that a loss may occur if the counterparty fails to honour its commitments with respect to a financial instrument. It can apply to both balance sheet and off-balance sheet assets, such as a loan or a derivative with a positive market value.

Credit risk is controlled using detailed policies which are designed to maximize the risk/return trade-offs. These policies are approved by the Board of Directors.

The Bank's credit risk management policy for balance sheet items is adopted by the Board of Directors in collaboration with the Executive Office and the Credit Committee of the Board. It sets out the objectives and the methods and procedures for identifying and measuring risks (including concentration risk), evaluating credit, approving applications, as well as checking, monitoring and controlling such risk.

The Chief Executive Officer and the Chair of the Credit Committee of the Bank (a separate entity from the Credit Committee of the Board) are responsible for implementing these measures. Line management with the authority to approve credit applications varies in accordance with the size and risk of the loan being contemplated. Beyond certain limits, the decisions are made by the Credit Committee of the Board. Each credit application must meet the requirements stipulated in the Bank's policy. The portfolio is monitored on an ongoing basis and a specialized team analyzes the risks associated with the various credit categories and sectors in which the Bank wants to be involved.

At least once a year, the Chair of the Credit Committee of the Bank presents a detailed risk management report to the Board of Directors. Periodic and special reports are also submitted to the Board of Directors, the Audit Committee and the Credit Committee of the Board. Accounts which could become problematic are monitored very closely and independent examinations are conducted.

MARKET RISKS: INTEREST AND FOREIGN EXCHANGE RATES

Market risks are related to the probability of variations in the value of a financial instrument because of fluctuations in economic conditions and market prices. For a bank, the main market risks are tied to changes in interest and currency rates.

"Foreign currency risk" or "foreign exchange risk" refers to the impact of exchange rate movements on the value of a financial instrument.

"Interest rate risk" designates the risk that the value of a balance sheet or off-balance sheet financial instrument will be affected by market variations in interest rates. On the balance sheet, interest rate risk results from the mismatching of asset and liability maturities. To control this risk, the Bank manages its asset and liability matching and adjusts the mix of its portfolios using a vast range of both balance sheet and off-balance sheet financial instruments.

The Board of Directors has established specific, detailed policies for controlling market risks. These policies are aimed not at neutralizing such risks but at maximizing risk/return trade-offs within carefully defined limits.

Market risks are evaluated and managed by the Treasury sector, primarily using the VAR (value at risk) methodology. With a simulation model, it is possible to estimate the impact of potential market fluctuations on the financial instruments held by the Bank. The model concentrates on worst-case loss scenarios and excludes only those risks with a probability of less than 1% over a 10-day period. In addition to daily VAR simulations, at least once a week the Bank carries out a simulation aimed at gauging the impact of catastrophic events that exceed the 99% confidence level. This stress testing is used to measure – and if necessary mitigate – the Bank's vulnerability to extreme shifts in market conditions.

The Bank also uses other risk measurement methods as part of its internal control operations. Measuring the day-to-day volatility of profits and losses, vital for controlling market risk, is used in conjunction with other standard financial risk measurements and various sensitivity analysis techniques.

The Audit Committee establishes maximum risk limits and the procedures to follow depending on the level of risk involved. Responsibility for managing market risks lies with the President of the Financial Markets, Treasury and Investment Bank. Managers are required to respect strict follow-up and reporting procedures, and stop-loss mechanisms are automatically triggered should losses at any time exceed certain specified levels. Moreover, an independent unit within the Bank is responsible for monitoring and controlling transactions.

LIQUIDITY RISK

Liquidity risk refers to an institution's ability to raise the funds needed to meet its financial commitments, whether for balance sheet items or off-balance sheet activities. An integral part of asset and liability management, liquidity risk is included in the strategies applied by Treasury. Since it is extremely important for a bank to have liquid assets available at all times, special emphasis is placed on managing them.

The Bank's liquidity management policy, which is approved by the Board of Directors, sets out the objectives, measurement methods, minimum requirements and control procedures as well as strategies for obtaining market funds and the steps to be taken to deal with any unforeseen events. The President of the Financial Markets, Treasury and Investment Bank is responsible for applying the liquidity management policy, a report on which is submitted each year to the Executive Office. The situation is regularly monitored through weekly follow-up reports on liquidity ratios and quarterly reports on the Bank's overall liquidity position.

The liquidities needed for the Bank's operations are guaranteed by stable, well-diversified funding through core deposits and purchased funds, a sufficient level of equity, and the Bank's access to financial markets. Other techniques, such as loan syndication and securitization, the marketing of Bank products and the use of derivatives, are also instrumental in ensuring sufficient liquidity.

OPERATIONAL RISK

Operational risk concerns the possibility that losses would be incurred should information systems or operations control and management systems fail. The Bank has a number of ways to limit this risk exposure. For example, it establishes specific policies and procedures, including emergency plans (for recovery in the event of equipment breakdown, for instance), continuous monitoring and follow-up of procedures and systems, daily back-up of transactions, regular presentation of reports to senior line management, separation of transaction and control functions, and personnel training.

RAROC Model

The RAROC (Risk-Adjusted Return on Capital) model is a financial analysis tool designed to ensure the most efficient allocation of capital by comparing income for each of the Bank's constituent parts and the capital they use.

In the RAROC methodology, the risk which a borrower represents is calculated according to a number of variables: the borrower's credit rating, which serves to estimate the probability of non-payment; the loan term, which is used to take into account the uncertainty regarding the borrower's future creditworthiness; the collateral pledged by the borrower; the risk of drawdowns on credit commitments; and portfolio diversification.

The model assigns an expected loss to each credit facility based on average rates of default. Default rates are calculated over the entire economic cycle in order to avoid underestimating the credit risk during periods of robust growth. The allocation of capital is determined in such a way as to ensure adequate coverage of losses in 99.9% of cases. The foundations of the RAROC methodology for allocating capital based on credit risk are the same as those for the VAR method applied to market risk.

In addition to allowing better management of risk, the RAROC method is much more accurate in measuring the profitability of the Bank's products, commercial operations, client segments and business units.

Interest rate risk management

Analyzing interest rate sensitivity gaps is one of the methods used to control interest rate risk. The breakdown of assets and liabilities by maturity illustrates the sensitivity of the Bank's balance sheet to interest rate fluctuations as at October 31, 2000 (see Note 19 to the financial statements, page 80).

The net sensitivity gap for maturities of one year and under went from an asset-sensitive position of $1 billion as at October 31, 1999 to a liability-sensitive position of $0.9 billion as at October 31, 2000.

The use of derivatives greatly contributed to reducing the average maturity of the Bank's net assets, thereby making its interest spread less sensitive to changes in interest rates. In fact, by using derivatives, the Bank reduced the position of net gaps for maturities of under one year by $3.3 billion.

Another risk assessment method used by the Bank is to measure the impact of interest rate movements on net interest income and on the market value of shareholders' equity. The Bank structured the investment sensitivity gaps for maturities of one year and under in such a way as to minimize the impact of interest rate fluctuations on the interest spread. Based on the matching position of the Bank as at October 31, 2000, simulations demonstrate that an immediate and sustained 1% rise in interest rates would decrease net interest income by approximately $3 million (before taxes) over 12 months and reduce the market value of shareholders' equity by $56.2 million (before taxes).

To complement the traditional tools used for measuring financial risk, the Bank applies a VAR methodology to trading activities. According to simulations, if potential losses with a probability of 1% or less are excluded, the VAR of trading activities as at October 31, 2000 was limited to $5.1 million in foreign exchange operations, $7.2 million in interest rate operations, $8.8 million in equity trading and $5 million in options trading. The VAR of these types of operations combined amounted to $14.6 million. These amounts are considerably lower than the notional amount of the derivatives used for trading purposes.

Derivative financial instruments and risk

The derivative financial instruments used by the Bank (forwards, futures, swaps and options) are contracts whose value is derived mainly from interest rates and foreign exchange rates and, to a lesser extent, commodity prices and equity prices.

Derivatives are the strategic tool of choice for risk management. Accordingly, the Bank uses them for trading activities and asset/liability management.

The Bank uses its trading portfolio to carry out market-making or trading operations and to position itself on markets. The Bank also makes its expertise in risk management available to its commercial and institutional clients by offering risk management solutions. Derivatives are needed to control the risks of trading activities.

Derivatives are also one of the balance-sheet management tools available for interest rate and foreign exchange hedging as well as asset and liability matching. It is essential that these risks, which are a normal part of banking, be managed in order to protect the interest spread and the value of capital.

For trading activities, transactions are accounted for on a marked-to-market basis. For asset/liability management operations, the derivatives are accounted for on an accrual basis in order to match the accounting treatment of the assets and liabilities being hedged.

The risks inherent in derivatives are similar to the general risks for financial instruments. They include most notably market risk, credit risk, liquidity risk and legal risk.

Market risk is defined as the potential for deterioration in the value of a derivative instrument because of fluctuations in the underlying primary instrument (interest rates or foreign exchange rates). All derivative risks are accurately measured, re-evaluated on a daily basis and managed in accordance with the policies approved by the Bank's Board of Directors.

Credit risk, also known as the credit equivalent amount, is the value of the loss incurred in the event a counterparty fails to honour its commitments. It is measured by taking into account the replacement cost of the contract (if it is positive), future credit risk exposure (which is the estimated change in the value of the contract to maturity) and the impact of master netting agreements.

Liquidity risk consists of two elements: market liquidity and cash flow. In the first instance, risk exposure stems from a possible delay in settling a position when, for example, the market lacks sufficient depth. The Bank controls this risk by taking relatively short positions and by operating on markets where its positions represent only a very small proportion of total volume.

In the second instance, cash flow risk derives from the timing of cash inflows and outflows and is managed as part of the Bank's overall liquidity management process.

Legal risk exists where there is a possibility that a counterparty does not have the necessary legal power to close a transaction or the legal documents for such a transaction are deficient. The Bank manages this risk by applying the necessary checks and controls and by working with the national and international organizations that set the standards to be respected.

In addition to being managed as part of the Bank's general risk management policies, derivative risk exposure is also subject to special assessment and control measures. An independent unit within the Bank is responsible for monitoring financial transactions and administering risk control systems. The duties of this unit include ensuring that transactions are settled and recorded, measuring position risk, checking that the policies adopted by the Board of Directors are applied and controlling the quality of analysis systems.

Analysis of off-balance sheet risk exposure

Risks are also linked to off-balance sheet activities, which consist of credit instruments and derivatives. These financial instruments are usually components of portfolios which include balance sheet items and, as such, are subject to the full range of control measures described earlier. In addition, credit instruments must comply with the same credit policies as loan operations recorded on the balance sheet. Additional control measures are also applied to derivatives.

Table 8 (page 45) provides a breakdown of the risk-weighted credit equivalent amount of the various off-balance sheet items included in the calculation of total risk-weighted assets. They represent a relatively small proportion in comparison to the other credit risks recorded on the balance sheet. Off-balance sheet items accounted for 14.5% of risk-weighted total assets, compared to 16.8% in 1999. More active portfolio management accounted for this decrease.

Note 17 to the financial statements (page 76) presents the notional (or nominal) amounts of derivatives used by the Bank as well as the maturity profile as at September 30, 2000. It should be noted that most of these instruments have short maturities: 92% of interest rate contracts and 88% of foreign exchange contracts mature within 12 months.

These notional amounts are not necessarily representative of the risk level but rather reflect the large number of transactions.

The data on the risk-weighted equivalent amount confirm the small proportion of derivatives on the balance sheet.

The Bank limits credit risk exposure related to derivatives in various ways. For instance, in dealings with certain counterparties, it reduces its exposure by means of netting or marked-to-market agreements. In addition, credit risk exposure is reduced substantially when the relevant instruments are listed on a stock exchange. It will be noted that most of the credit equivalent amount for derivatives is contracted with reliable counterparties, particularly major banks and OECD-member countries.

Conclusion

In fiscal 2000, the National Bank took full advantage of favourable economic conditions in North America to increase its income and revenues, consolidate its financial base and enhance its profitability.

The Bank continued to successfully diversify its operations, invest in new technologies and transform itself into an integrated financial group, which has enabled it to remain the leading commercial bank in Quebec and to position itself in promising markets in the rest of Canada, the United States and elsewhere in the world.

More than ever, the Bank is an active player on international financial markets, and its personnel have honed their skills and expertise to offer advisory services adapted to its various client groups. In other words, the Bank can accompany its clients wherever their business may take them.

As the new century begins, the National Bank has already set its course for another year of growth and expansion. Clients, shareholders and investors alike have every reason to continue placing their trust in the Bank and prospering along with it.

TABLE 1. OVERVIEW OF RESULTS

Year ended October 31

(taxable equivalent basis) (millions of dollars and as a percentage of average assets)

	2000		1999		1998		1997		1996	
	$	%	$	%	$	%	$	%	$	%
Net interest income	**1,333.9**	**1.81**	1,319.2	1.90	1,310.4	1.99	1,323.9	2.38	1,142.2	2.32
Other income	**1,969.8**	**2.67**	1,263.2	1.82	1,142.5	1.73	1,055.6	1.90	970.1	1.97
Provision for credit losses	**200.0**	**0.27**	185.0	0.27	193.4	0.29	290.0	0.52	235.0	0.48
Operating expenses	**2,183.8**	**2.96**	1,662.7	2.40	1,577.5	2.39	1,477.8	2.65	1,402.1	2.85
Income taxes	**362.7**	**0.49**	275.1	0.39	259.2	0.39	243.1	0.44	135.8	0.28
Non-controlling interest	**26.1**	**0.04**	31.8	0.04	31.2	0.05	16.0	0.03	10.1	0.02
Income before goodwill charges	**531.1**	**0.72**	427.8	0.62	391.6	0.60	352.6	0.64	329.3	0.66
Goodwill charges	**22.0**	**0.03**	10.8	0.02	75.8	0.12	11.0	0.02	11.0	0.02
Net income	**509.1**	**0.69**	417.0	0.60	315.8	0.48	341.6	0.62	318.3	0.64
Average assets	**73,807**		69,387		65,873		55,685		49,239	

TABLE 2. CHANGES IN NET INTEREST INCOME

Year ended October 31

(taxable equivalent basis) (millions of dollars)

	2000			1999			**2000-1999**			$ Variation due to:	
	Average volume	**Rate**	**Interest**	Average volume	Rate	Interest	**Average volume**	**Rate**	**Interest**	Average volume	Rate
	$	%	$	$	%	$	$	%	$		
Assets											
Deposits with financial institutions	**4,427**	**5.25**	**232.4**	3,809	4.88	185.8	**618**	**0.37**	**46.6**	32.4	14.2
Securities	**17,698**	**3.85**	**681.6**	15,491	3.22	498.7	**2,207**	**0.63**	**182.9**	85.0	97.9
Mortgage loans	**12,134**	**6.65**	**807.4**	13,931	6.59	917.6	**(1,797)**	**0.06**	**(110.2)**	(119.5)	9.3
Personal loans	**8,481**	**7.33**	**621.6**	7,485	7.74	579.6	**996**	**(0.41)**	**42.0**	73.0	(31.0)
Business and other loans	**24,160**	**6.31**	**1,523.9**	22,683	5.76	1,306.5	**1,477**	**0.55**	**217.4**	93.2	124.2
Impaired loans, net	**66**	**—**	**—**	88	0.91	0.8	**(22)**	**(0.91)**	**(0.8)**	—	(0.8)
Earning assets	**66,966**	**5.77**	**3,866.9**	63,487	5.50	3,489.0	**3,479**	**0.27**	**377.9**	164.1	213.8
Other assets	**6,841**	**—**	**—**	5,900	—	—	**941**	**—**	**—**	—	—
Total assets	**73,807**	**5.24**	**3,866.9**	69,387	5.03	3,489.0	**4,420**	**0.21**	**377.9**	164.1	213.8
Liabilities and shareholders' equity											
Personal deposits	**20,877**	**3.91**	**817.3**	19,778	3.98	787.7	**1,099**	**(0.07)**	**29.6**	43.0	(13.4)
Deposit-taking institutions	**6,129**	**5.40**	**330.7**	7,187	4.79	344.2	**(1,058)**	**0.61**	**(13.5)**	(57.1)	43.6
Other deposits	**23,570**	**5.10**	**1,203.2**	20,499	4.47	917.1	**3,071**	**0.63**	**286.1**	156.6	129.5
	50,576	**4.65**	**2,351.2**	47,464	4.32	2,049.0	**3,112**	**0.33**	**302.2**	142.5	159.7
Subordinated debentures	**1,536**	**7.47**	**114.7**	1,041	7.34	76.4	**495**	**0.13**	**38.3**	37.0	1.3
Liabilities other than deposits	**11,089**	**1.07**	**118.9**	11,694	1.09	127.6	**(605)**	**(0.02)**	**(8.7)**	(6.5)	(2.2)
Other[1]	**—**	**—**	**(51.8)**	—	—	(83.2)	**—**	**—**	**31.4**	—	31.4
Interest-bearing liabilities	**63,201**	**4.01**	**2,533.0**	60,199	3.60	2,169.8	**3,002**	**0.41**	**363.2**	173.0	190.2
Other liabilities	**7,092**	**—**	**—**	6,272	—	—	**820**	**—**	**—**	—	—
Shareholders' equity	**3,514**	**—**	**—**	2,916	—	—	**598**	**—**	**—**	—	—
Total liabilities and shareholders' equity	**73,807**	**3.43**	**2,533.0**	69,387	3.13	2,169.8	**4,420**	**0.30**	**363.2**	173.0	190.2
Impact of non-interest bearing assets and liabilities										88.8	(88.8)
Net interest income		**1.81**	**1,333.9**		1.90	1,319.2		**(0.09)**	**14.7**	79.9	(65.2)

[1] *Other interest income and interest expense including hedging operations.*

TABLE 3. OTHER INCOME

Year ended October 31
(taxable equivalent basis) (millions of dollars)

	2000	1999	1998	1997	1996
Capital market fees	**571**	336	313	313	244
Deposit and payment service charges	**155**	150	144	132	123
Trading activities and gains on investment account securities, net	**327**	120	94	153	180
Card service revenues	**171**	143	123	95	69
Lending fees	**195**	167	146	115	99
Acceptances, letters of credit and guarantee	**64**	58	44	41	35
Foreign exchange revenues	**52**	50	46	39	50
Trust services	**38**	33	31	28	20
Other	**397**	206	201	140	150
	1,970	1,263	1,142	1,056	970
Domestic	**1,927**	1,206	1,099	1,024	852
International – United States	**36**	37	37	29	32
– Other	**7**	20	6	3	86
Other income as a percentage of total revenues on a taxable equivalent basis[1]	**57.9 %**	48.9 %	46.6 %	44.4 %	45.9 %

[1] *The $136 million gain (taxable equivalent basis) on the sale of a subsidiary was excluded from the calculation for 2000.*

TABLE 4. PROVISION FOR CREDIT LOSSES

Year ended October 31
(millions of dollars)

	2000	1999	1998	1997	1996
Provision for credit losses					
Domestic					
Individuals and small businesses	**88**	77	58	100	115
Commercial	**69**	75	44	52	45
Corporate	**13**	3	2	17	4
Real estate	**15**	12	10	60	26
Other	**(2)**	—	1	2	—
Domestic – Private risks	**183**	167	115	231	190
International					
Commercial – United States	**23**	15	44	10	5
Real estate – United States	**(7)**	—	31	21	39
Real estate – Other	**—**	—	—	—	(8)
Other	**1**	3	3	13	9
International – Private risks	**17**	18	78	44	45
General allowance for credit risk	**—**	—	—	100	—
Designated countries	**—**	—	—	(85)	—
Provision for credit losses charged to income	**200**	185	193	290	235
Net average loans and acceptances					
Domestic	**39,345**	38,928	35,550	32,671	29,424
International – United States	**4,818**	4,342	4,864	4,249	3,967
– Other	**301**	213	790	577	644
Total	**44,464**	43,483	41,204	37,497	34,035
Provision for credit losses as a percentage of net average loans and acceptances					
Domestic	**0.47 %**	0.43 %	0.32 %	0.71 %	0.65 %
International – United States	**0.33 %**	0.35 %	1.54 %	0.73 %	1.11 %
– Other	**0.33 %**	1.41 %	0.38 %	2.25 %	0.16 %
Total	**0.45 %**	0.43 %	0.47 %	0.77 %	0.69 %
Allowances					
Balance at beginning of year	**989**	1,049	839	751	792
Retroactive application of new accounting standard as at November 1, 1995	**—**	—	—	—	77
Provision for credit losses charged to income	**200**	185	193	290	235
Write-offs[1]	**(257)**	(276)	(328)	(242)	(364)
Recoveries	**33**	31	45	40	11
Adjustment to general allowance *(see Note 25, page 86)*	**—**	—	300	—	—
Balance at end of year	**965**	989	1,049	839	751
Components of allowances					
Designated countries					
Portion related to loans	**35**	37	40	52	69
Portion related to securities	**17**	16	17	4	85
Specific	**413**	436	492	583	497
General	**500**	500	500	200	100

[1] *Including exchange rate fluctuations.*

Additional Financial Information

TABLE 5. OPERATING EXPENSES

Year ended October 31
(millions of dollars)

	2000	1999	1998	1997	1996
Salaries and staff benefits	**1,166**	887	822	781	705
Premises, computers and equipment, including amortization	**441**	390	374	346	316
Other					
Messenger services and communications	**73**	65	60	57	55
Advertising and external relations	**46**	37	37	31	32
Stationery	**26**	22	21	19	16
Loan and deposit insurance	**13**	24	38	40	37
Professional fees	**121**	76	69	66	48
Travel expenses	**17**	14	13	11	11
Security and theft	**13**	11	11	10	12
Capital and payroll taxes	**64**	38	50	48	48
Other	**204**	98	82	69	122
	577	385	381	351	381
Total	**2,184**	1,662	1,577	1,478	1,402
Domestic	**2,083**	1,573	1,491	1,405	1,327
International – United States	**84**	75	68	53	54
– Other	**17**	14	18	20	21
Operating expenses as a percentage of total revenues on a taxable equivalent basis[1]	**65.1 %**	64.4 %	64.3 %	62.1 %	66.4 %

[1] *The $136 million gain (taxable equivalent basis) on the sale of a subsidiary and expenses of $120 million, described on page 33, were excluded from the calculation for 2000.*

TABLE 6. DEPOSITS

As at October 31
(millions of dollars)

	2000		1999		1998		1997		1996	
	$	%	$	%	$	%	$	%	$	%
Personal	**20,497**	**40.6**	20,316	40.6	19,897	41.4	20,413	47.2	22,413	55.9
Commercial	**9,726**	**19.3**	8,737	17.5	9,828	20.5	7,709	17.8	7,056	17.6
Purchased funds	**20,250**	**40.1**	20,931	41.9	18,301	38.1	15,148	35.0	10,656	26.5
Total	**50,473**	**100.0**	49,984	100.0	48,026	100.0	43,270	100.0	40,125	100.0
Domestic	**31,955**	**63.3**	30,429	60.9	30,886	64.3	29,158	67.4	32,471	80.9
International – United States	**6,935**	**13.7**	5,518	11.0	6,292	13.1	5,474	12.6	3,597	9.0
– Other	**11,583**	**23.0**	14,037	28.1	10,848	22.6	8,638	20.0	4,057	10.1
Total	**50,473**	**100.0**	49,984	100.0	48,026	100.0	43,270	100.0	40,125	100.0
Personal deposits as a percentage of total assets		**27.0**		29.1		28.2		30.8		42.2

TABLE 7. SOURCE OF CAPITAL

As at October 31
(millions of dollars)

	2000	1999	1998	1997	1996
Non-controlling interest	**468**	443	523	466	42
Subordinated debentures	**1,361**	1,035	966	1,069	1,016
Shareholders' equity					
Preferred shares	**492**	317	317	376	376
Common shares	**1,653**	1,641	1,327	1,309	1,268
Retained earnings	**1,683**	1,343	1,051	1,075	855
	3,828	3,301	2,695	2,760	2,499
Total capital	**5,657**	4,779	4,184	4,295	3,557
Internally generated capital					
Net income	**509**	417	316	342	318
Other amounts affecting retained earnings	**1**	22	(200)	2	(56)
	510	439	116	344	262
Less: dividends	**(170)**	(147)	(140)	(124)	(108)
	340	292	(24)	220	154
External financing					
Non-controlling interest	**25**	(80)	57	424	6
Subordinated debentures	**326**	69	(103)	53	(161)
Preferred shares	**175**	—	(59)	—	—
Common shares	**12**	314	18	41	34
	538	303	(87)	518	(121)
Increase (decrease) in capital	**878**	595	(111)	738	33

TABLE 8. CAPITAL RATIOS

As at October 31
(millions of dollars) (in accordance with BIS guidelines)

	2000	1999 [3]	1998	1997	1996 [2]
Tier 1 capital					
Common shareholders' equity	**3,336**	2,984	2,378	2,384	2,123
Non-cumulative permanent preferred shares	**492**	317	317	317	317
Non-controlling interest	**468**	443	523	466	42
Less: goodwill	**(325)**	(350)	(81)	(154)	(161)
	3,971	3,394	3,137	3,013	2,321
Tier 2 capital					
Cumulative preferred shares	**—**	—	—	59	59
Subordinated debentures	**1,290**	1,271	911	947	1,064
General allowance for credit risk	**343**	328	300	200	—
Less: investments in affiliated corporations	**(329)**	(125)	(3)	(3)	(1)
Less: first loss protection	**(54)**	(3)	—	—	—
	1,250	1,471	1,208	1,203	1,122
Total capital	**5,221**	4,865	4,345	4,216	3,443
Risk-weighted balance sheet items					
Cash resources	**1,160**	675	882	981	761
Securities	**1,921**	2,126	583	2,282	2,861
Mortgage loans	**2,816**	3,707	4,335	4,200	4,156
Other loans	**25,671**	24,405	24,181	22,202	20,143
Other assets	**5,528**	4,729	4,429	4,022	3,098
	37,096	35,642	34,410	33,687	31,019
Risk-weighted off-balance sheet items[1]					
Letters of guarantee and documentary credit	**1,292**	1,878	1,645	1,193	1,174
Commitments to extend credit	**4,747**	5,137	2,819	2,293	1,358
Interest rate contracts	**84**	65	94	77	66
Foreign exchange contracts	**331**	244	443	158	136
Equity and commodity contracts	**187**	72	41	18	21
	6,641	7,396	5,042	3,739	2,755
Market risk items	**2,098**	1,083	1,195	—	—
Total risk-weighted assets	**45,835**	44,121	40,647	37,426	33,774
Assets to capital multiple[4]	**14.8**	16.6	17.0	16.4	17.1
Ratios					
Tier 1	**8.7 %**	7.7 %	7.7 %	8.1 %	6.9 %
Tier 2	**2.7 %**	3.3 %	3.0 %	3.2 %	3.3 %
Total	**11.4 %**	11.0 %	10.7 %	11.3 %	10.2 %

[1] *As at September 30.*
[2] *Taking into account the issuance of $150 million of subordinated debentures on November 1, 1996.*
[3] *Taking into account the issuance of US $250 million of subordinated debentures on November 2, 1999.*
[4] *The assets to capital multiple is calculated by dividing total balance sheet assets and direct credit substitutes by total capital as defined by capital adequacy requirements.*

TABLE 9. ASSETS UNDER ADMINISTRATION/MANAGEMENT

As at October 31
(millions of dollars)

	General Trust of Canada	National Bank Financial & Co.	National Bank Securities	Natcan Investment Management	National Bank Discount Brokerage	Bank excluding subsidiaries	**Total 2000**	Total 1999
Assets under administration								
Institutional	30,082	2,143	—	—	—	—	**32,225**	31,326
Personal	—	46,111	—	—	5,083	—	**51,194**	45,033
Mutual funds	3,785	23	4,373	—	—	—	**8,181**	6,563
Mortgage loans sold to third parties	—	776	—	—	—	5,265	**6,041**	4,410
Total assets under administration	33,867	49,053	4,373	—	5,083	5,265	**97,641**	87,332
Assets under management								
Personal	2,630	—	—	—	—	—	**2,630**	2,804
Managed portfolios	—	1,367	—	9,649	2,333	—	**13,349**	11,304
Mutual funds	—	—	—	4,362	—	—	**4,362**	4,094
Total assets under management	2,630	1,367	—	14,011	2,333	—	**20,341**	18,202
Total assets under administration/ management	36,497	50,420	4,373	14,011	7,416	5,265	**117,982**	105,534

TABLE 10. DISTRIBUTION OF LOANS BY BORROWER CATEGORY

As at September 30

(millions of dollars)

	2000		1999		1998		1997		1996	
	$	%	$	%	$	%	$	%	$	%
Personal[1]	**7,415**	**16.3**	7,459	16.2	5,975	12.4	5,870	14.0	5,330	14.1
Residential mortgage	**11,503**	**25.2**	13,298	28.9	14,158	29.3	12,998	30.9	11,550	30.5
Non-residential mortgage	**756**	**1.7**	683	1.5	648	1.3	699	1.7	608	1.6
Agricultural	**1,169**	**2.6**	1,060	2.3	942	1.9	847	2.0	713	1.9
Financial institutions	**2,725**	**6.0**	2,760	6.0	2,268	4.7	2,436	5.8	1,773	4.7
Manufacturing	**5,132**	**11.3**	4,980	10.8	5,076	10.5	3,786	9.0	3,422	9.0
Construction and real estate	**1,388**	**3.0**	1,606	3.5	2,194	4.5	2,158	5.1	2,501	6.6
Transportation and communications	**1,013**	**2.2**	877	1.9	815	1.7	655	1.6	574	1.5
Mines, quarries and energy	**585**	**1.3**	608	1.3	614	1.3	398	0.9	334	0.9
Forestry	**289**	**0.6**	238	0.5	269	0.6	252	0.6	242	0.6
Governments	**867**	**1.9**	800	1.7	724	1.5	557	1.3	520	1.4
Wholesale trade	**1,839**	**4.0**	1,613	3.5	1,431	3.0	1,346	3.2	1,209	3.2
Retail trade	**1,481**	**3.2**	1,498	3.2	1,729	3.5	1,293	3.1	1,221	3.2
Services	**2,320**	**5.1**	2,339	5.1	2,818	5.8	2,241	5.3	2,200	5.8
Securities purchased under resale agreements	**5,364**	**11.8**	4,175	9.1	6,812	14.1	4,133	9.8	3,062	8.1
Other	**1,745**	**3.8**	2,072	4.5	1,890	3.9	2,406	5.7	2,591	6.9
	45,591	**100.0**	46,066	100.0	48,363	100.0	42,075	100.0	37,850	100.0

[1] *Includes consumer loans, credit cards and other personal loans.*

TABLE 11. REAL ESTATE LOANS

As at October 31

(millions of dollars)

	2000		1999		1998		1997		1996	
	$	%	$	%	$	%	$	%	$	%
Geographic distribution										
Canada										
Ontario	**101**	**16**	168	24	238	26	327	28	437	27
Quebec	**371**	**58**	335	49	376	42	405	34	503	31
Other	**16**	**2**	18	3	21	2	40	3	34	2
	488	**76**	521	76	635	70	772	65	974	60
United States										
California	**58**	**9**	57	8	79	9	149	13	232	15
New York	**15**	**2**	19	3	27	3	63	5	96	6
Illinois	**7**	**1**	7	1	28	3	55	4	114	7
Other	**78**	**12**	85	12	131	15	152	13	194	12
	158	**24**	168	24	265	30	419	35	636	40
	646	**100**	689	100	900	100	1,191	100	1,610	100
By type of project										
Retail	**183**	**28**	186	27	256	29	358	30	414	26
Office	**235**	**37**	216	31	283	32	410	34	572	36
Residential	**93**	**14**	94	14	103	11	158	13	188	11
Industrial	**45**	**7**	55	8	82	9	78	7	110	7
Land	**25**	**4**	29	4	38	4	35	3	47	3
Other	**65**	**10**	109	16	138	15	152	13	279	17
	646	**100**	689	100	900	100	1,191	100	1,610	100
Allowances for credit losses	**53**		64		116		158		116	
Real estate loans, net	**593**		625		784		1,033		1,494	
As a percentage of shareholders' equity		**15**		19		29		37		60
As a percentage of total loans and acceptances		**1**		1		2		2		4

TABLE 12. DESIGNATED COUNTRIES

As at October 31
(millions of dollars)

	2000	1999	1998	1997	1996
Loans and securities, gross					
Brazil	**38**	37	39	35	51
Argentina	**—**	—	—	—	51
Ivory Coast	**14**	14	14	18	18
Venezuela	**—**	—	—	—	15
Sudan	**13**	15	18	16	17
Nicaragua	**13**	13	14	12	12
Peru	**13**	13	14	13	22
Other	**12**	12	14	15	20
	103	104	113	109	206
Country risk allowance	**52**	53	57	56	154
Loans and securities, net of allowances	**51**	51	56	53	52
Allowances as a % of loans and securities	**50.5%**	51.0%	50.4%	51.4%	74.8%
Loans and securities, net, as a % of shareholders' equity	**1.3%**	1.5%	2.1%	1.9%	2.1%

Particulars, by country, of private-risk and sovereign-risk loans classified as restructured for previous years are as follows: 1998: Ivory Coast $13 million; 1997: Peru $12 million; 1996: Panama $6 million.

TABLE 13. IMPAIRED LOANS

As at October 31
(millions of dollars)

	2000	1999	1998	1997	1996
Private impaired loans, net					
Domestic					
Individuals and small businesses[1]	**194**	216	244	241	192
Commercial	**233**	240	216	190	175
Corporate	**23**	3	—	7	18
Real estate	**26**	33	31	38	61
Other	**1**	—	—	—	5
	477	492	491	476	451
International					
Commercial – United States	**51**	30	36	—	3
Real estate – United States	**12**	13	11	8	39
Other	**4**	7	7	8	5
	67	50	54	16	47
General allowance for credit risk[2]	**(500)**	(500)	(500)	(200)	(100)
Total private impaired loans, net	**44**	42	45	292	398
Impaired loans to designated countries					
Gross	**35**	38	42	57	77
Allowance	**35**	37	40	52	69
Total impaired loans to designated countries, net	**—**	1	2	5	8
Total impaired loans, net[3]	**44**	43	47	297	406
Private impaired loans, gross	**957**	978	1,037	1,075	995
Allowance for credit losses	**913**	936	992	783	597
Private impaired loans, net	**44**	42	45	292	398
Provisioning rate	**95.4%**	95.7%	95.7%	72.8%	60.0%
As a percentage of net loans and acceptances					
Domestic – Private	**1.1%**	1.2%	1.2%	1.1%	1.3%
International – Private	**0.9%**	0.7%	0.8%	0.3%	1.0%
International – Designated countries	**0.0%**	0.0%	0.0%	0.1%	0.2%
Total	**0.1%**	0.1%	0.1%	0.6%	1.0%
As a percentage of common shareholders' equity	**1.3%**	1.4%	2.0%	12.5%	19.1%

(1) *Including $80 million in net consumer loans in 2000 (1999: $64 million; 1998: $57 million; 1997: $42 million; 1996: $37 million).*
(2) *See Note 25 to the Consolidated Financial Statements on page 86 for the impact of the adjustment made to the general allowance for credit risk on October 31, 1998.*
(3) *The Bank has no loans classified as other past-due loans (90 days and over) except for those already designated as impaired.*

TABLE 14. INTEREST ON IMPAIRED LOANS

Year ended October 31
(millions of dollars)

	2000	1999	1998	1997	1996
Interest on impaired loans					
Domestic	**(6)**	(8)	(9)	(19)	(20)
International	**—**	—	—	34	15
	(6)	(8)	(9)	15	(5)
Average impaired loans					
Domestic	**30**	45	292	400	354
International	**15**	8	39	50	96
	45	53	331	450	450
Interest as a % of average impaired loans					
Domestic	**(20.0)%**	(17.8)%	(3.1)%	(4.8)%	(5.7)%
International	**—**	—	—	68.0%	15.6%
Total	**(13.3)%**	(15.1)%	(2.7)%	3.3%	(1.1)%

Quarterly Results

(millions of dollars, except per share amounts)

	Net interest income (taxable equivalent basis)	Other income (taxable equivalent basis)	Provision for credit losses	Operating expenses	Income before goodwill charges	Goodwill charges
1st Q	281	214	44	325	78	3
2nd Q	280	230	44	399	73	2
3rd Q	292	299	104	337	101	3
4th Q	289	227	43	341	77	3
1996	1,142	970	235	1,402	329	11
1st Q	325	231	56	352	87	3
2nd Q	310	246	56	359	82	2
3rd Q	322	261	57	372	91	3
4th Q	367	318	121	395	93	3
1997	1,324	1,056	290	1,478	353	11
1st Q	329	286	50	384	103	3
2nd Q	320	300	49	398	98	3
3rd Q	331	285	46	398	101	3
4th Q	330	271	48	397	90	67
1998	1,310	1,142	193	1,577	392	76
1st Q	336	293	46	400	103	2
2nd Q	319	335	46	423	104	2
3rd Q	337	311	46	420	106	2
4th Q	327	324	47	419	115	5
1999	1,319	1,263	185	1,662	428	11
1st Q	**325**	**424**	**46**	**492**	**122**	**5**
2nd Q	**347**	**488**	**46**	**551**	**138**	**6**
3rd Q	**345**	**580**	**62**	**634**	**133**	**5**
4th Q	**317**	**478**	**46**	**507**	**138**	**6**
2000	**1,334**	**1,970**	**200**	**2,184**	**531**	**22**

Quarterly Results

(millions of dollars, except per share amounts)

Net income	Income per common share before goodwill charges: Basic	Income per common share before goodwill charges: Fully diluted	Net income per common share: Basic	Net income per common share: Fully diluted	Dividends (thousands of dollars): Common shares	Dividends (thousands of dollars): Preferred shares	ROE before goodwill charges (%)
75	0.43	0.43	0.41	0.41	18,926	6,855	14.7
71	0.40	0.40	0.39	0.38	20,667	6,787	13.7
98	0.57	0.56	0.55	0.54	20,769	6,724	18.6
74	0.42	0.42	0.41	0.41	20,893	6,675	13.4
318	1.82	1.81	1.76	1.74	81,255	27,041	15.1
84	0.48	0.48	0.46	0.45	20,980	6,563	14.8
80	0.44	0.44	0.44	0.44	25,398	6,537	13.9
88	0.50	0.49	0.47	0.47	25,551	6,538	14.6
90	0.51	0.50	0.49	0.48	25,587	6,538	14.6
342	1.93	1.91	1.86	1.84	97,516	26,176	14.5
100	0.56	0.56	0.55	0.54	25,658	6,608	15.7
95	0.53	0.53	0.52	0.52	29,079	6,701	15.0
98	0.55	0.54	0.53	0.52	29,142	6,720	14.6
23	0.49	0.48	0.09	0.09	29,213	6,495	13.1
316	2.13	2.11	1.69	1.67	113,092	26,524	14.6
101	0.56	0.56	0.55	0.55	29,241	6,044	15.9
102	0.57	0.56	0.56	0.55	29,255	6,044	16.2
104	0.58	0.57	0.57	0.56	31,031	6,043	15.4
110	0.59	0.58	0.56	0.55	33,964	6,044	15.1
417	2.30	2.27	2.24	2.21	123,491	24,175	15.5
117	**0.62**	**0.61**	**0.59**	**0.58**	**34,036**	**6,044**	**15.3**
132	**0.69**	**0.69**	**0.66**	**0.66**	**35,939**	**6,044**	**17.2**
128	**0.67**	**0.66**	**0.64**	**0.63**	**35,973**	**6,636**	**15.8**
132	**0.68**	**0.68**	**0.65**	**0.65**	**35,995**	**8,843**	**15.8**
509	**2.66**	**2.64**	**2.54**	**2.52**	**141,943**	**27,567**	**16.0**

	Impaired loans: Net private	Impaired loans: Designated countries outstanding: Gross	Impaired loans: Designated countries outstanding: Allowance	Net total	Number of common shares (thousands): Average	Number of common shares (thousands): End of period	Per common share: Book value	Per common share: Stock trading range: High	Per common share: Stock trading range: Low	Number of employees [1]	Number of branches in Canada
1st Q	399	94	86	407	164,575	164,594	11.86	11.38	10.38	11,514	648
2nd Q	395	93	84	404	165,330	165,348	12.13	12.00	11.00	11,295	649
3rd Q	392	81	72	401	166,161	166,182	12.53	12.00	11.05	11,568	632
4th Q	398	77	69	406	167,119	167,151	12.70	13.90	11.15	11,402	632
1996											
1st Q	387	75	68	394	168,046	168,315	13.04	14.40	13.20	11,668	665
2nd Q	394	55	50	399	169,163	169,369	13.36	16.80	13.75	11,584	659
3rd Q	392	54	49	397	170,121	170,250	13.68	18.25	15.65	11,736	643
4th Q	292	57	52	297	170,391	170,461	13.99	20.30	17.00	11,651	641
1997											
1st Q	290	57	54	293	170,762	170,986	14.47	24.60	20.35	11,837	642
2nd Q	289	36	35	290	171,126	171,210	14.79	31.25	22.80	11,815	640
3rd Q	290	39	37	292	171,401	171,518	15.19	30.85	27.10	12,149	639
4th Q	45	42	40	47	171,600	171,616	13.86	26.70	20.10	12,041	646
1998											
1st Q	43	40	38	45	171,850	172,024	14.27	26.20	22.60	12,315	646
2nd Q	48	37	36	49	172,153	172,214	14.70	24.50	19.90	12,164	646
3rd Q	48	39	38	49	172,294	172,320	15.23	23.15	18.55	12,337	648
4th Q	42	38	37	43	186,568	188,729	15.81	19.35	17.15	12,175	649
1999											
1st Q	**44**	**35**	**35**	**44**	**188,925**	**189,049**	**16.17**	**18.60**	**16.40**	**12,265**	**638**
2nd Q	**44**	**35**	**35**	**44**	**189,174**	**189,201**	**16.66**	**22.05**	**17.25**	**12,325**	**636**
3rd Q	**45**	**36**	**36**	**45**	**189,311**	**189,334**	**17.11**	**24.25**	**20.55**	**11,884**	**634**
4th Q	**44**	**35**	**35**	**44**	**189,444**	**189,474**	**17.60**	**25.25**	**21.05**	**11,457**	**586**
2000											

[1] *On a full-time equivalent basis and excluding the subsidiary National Bank Financial & Co. Inc.*

Glossary of Financial Terms

ACCEPTANCE
Short-term debt security traded on the money market which a bank guarantees on behalf of a borrower, for a stamping fee.

ALLOWANCE FOR CREDIT LOSSES
Allowance taken to absorb anticipated credit-related losses (loans, acceptances, guarantees, letters of credit, deposits with financial institutions and derivatives). Allowance for credit losses includes country risk allowances, specific provisions and the general allowance. It is the sum of the annual provisions less write-offs, net of recoveries.

ASSET-BASED LENDING
Loans or other forms of credit secured by assets belonging to the borrower (e.g. accounts receivable or inventory items) which are strictly controlled by the lender until settlement of the debt.

ASSETS UNDER ADMINISTRATION
Assets in respect of which a financial institution provides administrative services such as custodial services, collection of investment income, settlement of purchase and sale transactions and record-keeping. Assets under administration, which are beneficially owned by clients, are not reported on the balance sheet of the institution offering such services.

ASSETS UNDER MANAGEMENT
Assets managed by a financial institution which are beneficially owned by clients. Management services are more comprehensive than administrative services, and include selecting investments or offering investment advice. Assets under management, which may also be administered by the financial institution, are not reported on its balance sheet.

AVERAGE ASSETS
Daily average of balance sheet assets.

CAPITAL
Amount which would be owed to the holders of shares and subordinated debentures if assets had to be liquidated to reimburse depositors and other creditors. Capital consists of subordinated debentures, shareholders' equity and non-controlling interest.

CAPITAL RATIOS
Ratios of capital, as defined by regulatory authorities, to risk-weighted assets. The Bank for International Settlements (BIS) distinguishes two types of capital: Tier 1 capital, or base capital, consists of common shareholders' equity, non-cumulative preferred shares and non-controlling interest in subsidiaries less goodwill. Tier 2, or supplementary capital, consists of other preferred shares and the eligible portion of subordinated debentures, at their carrying value, plus the general allowance for credit losses, less investments in associated companies. Total regulatory capital, or total capital, is the sum of the various types of capital. In accordance with BIS rules, the Superintendent of Financial Institutions Canada defined a third tier of capital intended specifically to cover market risk, a risk which must also be covered by Tier 1 capital.

COMMON SHAREHOLDERS' EQUITY
The portion of shareholders' equity that includes only the capital stock paid in by common shareholders (plus retained earnings) and represents the amount that would be owed to common shareholders if assets had to be liquidated to reimburse depositors and other creditors.

DERIVATIVES
Financial contracts whose value is "derived" from interest rates, foreign exchange rates or equity prices. Derivatives are used in treasury operations as well as for hedging regular financial instruments. The most common types of derivatives include foreign currency or interest rate futures, swaps and options.

FOREIGN CURRENCY AND INTEREST RATE SWAPS
Transactions in which counterparties agree to exchange, for a specified period, currencies and/or streams of interest payments (generally by exchanging a fixed rate for a floating one) based on an amount of notional principal.

FOREIGN CURRENCY FUTURE
Contractual obligation to buy or sell, on or before a specified future date, a given quantity of foreign currency at a given exchange rate.

FOREIGN CURRENCY OR INTEREST RATE OPTION
The right, but not the obligation, to buy (call option) or sell (put option) at or by a set date a given amount of foreign currency or securities at a set price (strike price).

FORWARD RATE AGREEMENT
Contractual obligation to buy or sell, on or before a specified future date, a given quantity of a financial instrument at a given interest rate.

GUARANTEES AND LETTERS OF CREDIT
Irrevocable assurances that a bank will make payments for a client which cannot meet its financial obligations to third parties.

IMPAIRED LOAN
A loan is considered impaired when, in the opinion of management, there is reasonable doubt as to the payment of principal or interest. Any loan where payments are 90 days past due falls into this category, unless there is no doubt as to the collectibility of principal and interest.

LIQUID ASSETS
Assets held as cash or securities easily convertible to cash, such as deposits with financial institutions and securities.

MATCHING
The process of equating asset and liability maturities as well as off-balance sheet items so as to minimize interest rate risk and exchange rate risk.

NET INCOME PER SHARE
Net income available to holders of common shares, namely, net income less dividends on preferred shares, divided by the average number of common shares outstanding during the period in question.

NET INTEREST INCOME
Net interest income is comprised of interest and dividend revenue earned on total assets, less interest expenses paid on total liabilties. It is the difference between what the Bank earns on assets such as loans and securities, and what it pays on liabilities such as deposits. Average net interest margin is the ratio of net interest income to average assets.

NOTIONAL PRINCIPAL
Contract amount used as a reference point to calculate payments for off-balance sheet instruments such as forward rate agreements and interest rate swaps. It is considered "notional" as the principal amount itself never changes hands.

OBLIGATIONS RELATED TO SECURITIES SOLD UNDER REPURCHASE AGREEMENTS
Financial obligations related to securities sold under an agreement according to which they will be repurchased on a specified date and at a specified price. Such an agreement is a form of short-term funding.

OTHER INCOME
Other income includes all revenue except for interest and dividend income. It consists of such items as deposit and payment service charges, lending fees, capital market revenues, card service revenues, investment management and custodial fees, mutual fund revenues and securitization revenues.

POINT
Unit of measure equal to one percentage (1%).

PROVISION FOR CREDIT LOSSES
Amount added to the allowance for credit losses to bring it to a level that management considers adequate, taking into account write-offs and recoveries with respect to specific loans.

RETURN ON COMMON SHAREHOLDERS' EQUITY (OR ROE)
Net income, less dividends on preferred shares, expressed as a percentage of the average value of common shareholders' equity.

RISK WEIGHTING
Risk-weighting factors are applied to the face value of certain assets in order to present comparable risk levels. This procedure is also used to recognize the risk in off-balance sheet instruments by adjusting the notional value to balance sheet (or credit) equivalents and then applying the appropriate risk-weighting factors. Total risk-weighted assets are used in calculating the various capital ratios according to the rules of the Bank for International Settlements.

SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS
Securities purchased by the Bank from a client under an agreement according to which they will be resold to the same client on a specified date and at a specified price. Such an agreement is a form of short-term collateralized lending.

SECURITIZATION
Transaction in which certain assets, such as mortgages or credit card receivables, are sold to an entity which finances their acquisition by issuing negotiable securities. Securitization serves as an effective balance sheet management tool by reducing or eliminating the need to hold capital against risk-weighted assets, enabling capital to be reduced or redeployed to alternative revenue-generating purposes. It also serves as an effective liquidity management tool by diversifying funding sources. The nature of securitization changes the Bank's role from that of lender to loan servicer, thereby removing the loans from its balance sheet.

SHAREHOLDERS' EQUITY
The sum of the capital stock paid in by shareholders and retained earnings. Shareholders' equity is the amount that would be owed to shareholders if assets had to be liquidated to reimburse depositors and other creditors.

SUBORDINATED DEBENTURE
Unsecured debt instrument issued by a bank and for which repayment, in the event of liquidation, ranks behind the claims of depositors and certain other creditors. Convertible debentures can be exchanged for shares at the option of the holder, the issuer or both.

TAXABLE EQUIVALENT BASIS
Calculation method used to gross up certain tax-exempt income (primarily dividends) by the income tax that would have been payable had it been taxable. The gross-up of such income permits a uniform comparison of the yield on the various types of assets, such as those comprising net interest income, regardless of their tax treatment.

TRADING ACCOUNT
Liquid assets used for trading on financial markets. This account is recorded on the balance sheet at its fair value.

We are increasingly adapting to new technologies. We are developing customer relationships that are more and more flexible as well as tailored to individual needs.


A CLEAR VISION
INSPIRES
TRUST

Management's Report

The consolidated financial statements of National Bank of Canada as well as the other financial information presented in the Annual Report were prepared by management, which is responsible for their integrity, including material estimates and judgements incorporated therein. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles, other than the accounting for the general allowance for credit risk which is in accordance with the accounting treatment of the Superintendent of Financial Institutions Canada (the "Superintendent") under the *Bank Act*, as described in Note 1.

Management maintains the necessary accounting and control systems in discharging its responsibility and ensuring that the Bank's assets are safeguarded. These controls include standards for hiring and training personnel, the definition and appraisal of tasks and functions, operating policies and procedures, and budget controls.

The Board of Directors (the "Board") is responsible for examining and approving the financial data which appear in the Annual Report. Acting through the Audit Committee (the "Committee"), the Board also oversees the presentation of the consolidated financial statements and the maintenance of accounting and control systems.

The Committee, composed of directors who are neither officers nor employees of the Bank, is responsible for the ongoing evaluation of internal control procedures, for examining the consolidated financial statements, and for recommending them to the Board for approval. A team of internal auditors reports to the Committee and makes presentations to it on a regular basis.

The control systems are reinforced by the observation of laws and regulations which apply to the Bank's operations. The Superintendent regularly examines the affairs of the Bank to ensure that the provisions of the *Bank Act* with respect to the safety of the depositors and shareholders of the Bank are being observed and that the Bank is in a sound financial condition.

The independent auditors, whose report follows, were appointed by the shareholders on the recommendation of the Board. They were given full and unrestricted access to the Committee to discuss matters related to their audit and the reporting of information.

André Bérard
Chairman of the Board
and Chief Executive Officer

Michel Labonté
Senior Vice-President
Finance and Control

Montreal, November 27, 2000

Auditors' Report

To the Shareholders of National Bank of Canada

We have audited the Consolidated Balance Sheet of National Bank of Canada as at October 31, 2000 and the Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles other than the accounting for the general allowance for credit risk which is in accordance with the accounting treatment of the Superintendent of Financial Institutions Canada under the *Bank Act*, as described in Note 1.

The consolidated financial statements as at October 31, 1999 and for the year then ended were audited by Mallette Maheu, General Partnership, and PricewaterhouseCoopers LLP, who expressed an opinion thereon without reservation in their report dated November 23, 1999.

PricewaterhouseCoopers LLP
Chartered Accountants

Samson Bélair/Deloitte & Touche
General Partnership
Chartered Accountants

Montreal, November 27, 2000

Consolidated Statement of Income

Year ended October 31 *(millions of dollars except per share amounts)*	Note	2000	1999
Interest income and dividends			
Loans		2,976	2,825
Securities		648	482
Deposits with financial institutions		232	186
		3,856	3,493
Interest expense			
Deposits		2,360	2,039
Subordinated debentures		115	76
Other		89	96
		2,564	2,211
Net interest income		1,292	1,282
Other income			
Capital market fees		571	336
Deposit and payment service charges		155	150
Trading activities and gains on investment account securities, net		295	120
Card service revenues		171	143
Lending fees		195	167
Acceptances, letters of credit and guarantee		64	58
Foreign exchange revenues		52	50
Trust services		38	33
Other	24	367	206
		1,908	1,263
Total revenues		3,200	2,545
Provision for credit losses		200	185
		3,000	2,360
Operating expenses			
Salaries and staff benefits		1,166	887
Premises		185	169
Computers and equipment		256	221
Communications		73	65
Other	13	504	320
		2,184	1,662
Income before income taxes, non-controlling interest and goodwill charges		816	698
Income taxes	14	259	238
		557	460
Non-controlling interest		26	32
Income before goodwill charges		531	428
Goodwill charges		22	11
Net income		509	417
Dividends on preferred shares		28	24
Net income applicable to common shares		481	393
Average number of common shares (thousands)			
– Basic		189,214	175,746
– Fully diluted		191,605	178,138
Income per common share before goodwill charges	15		
– Basic		2.66	2.30
– Fully diluted		2.64	2.27
Net income per common share	15		
– Basic		2.54	2.24
– Fully diluted		2.52	2.21
Dividends per common share		0.75	0.70

Consolidated Balance Sheet

As at October 31 *(millions of dollars)*	*Note*	**2000**	1999
ASSETS			
Cash resources			
Cash and deposits with Bank of Canada		**818**	459
Deposits with financial institutions		**4,837**	3,102
		5,655	3,561
Securities	*3*		
Investment account		**6,387**	7,117
Trading account		**10,448**	9,815
		16,835	16,932
Loans	*4 and 5*		
Residential mortgage		**11,593**	12,569
Personal and credit card		**7,037**	7,157
Business and government		**22,712**	20,685
Securities purchased under reverse repurchase agreements		**5,397**	3,480
		46,739	43,891
Other			
Customers' liability under acceptances		**3,640**	2,962
Premises and equipment	*6*	**249**	349
Other assets	*7*	**2,709**	2,106
		6,598	5,417
		75,827	69,801
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	*8*		
Personal		**20,811**	20,640
Business and government		**23,855**	22,724
Deposit-taking institutions		**5,807**	6,620
		50,473	49,984
Other			
Acceptances		**3,640**	2,962
Obligations related to securities sold short		**4,903**	4,696
Obligations related to securities sold under repurchase agreements		**6,317**	4,169
Other liabilities	*9*	**5,305**	3,654
		20,165	15,481
Subordinated debentures	*10*	**1,361**	1,035
Shareholders' equity			
Preferred shares	*11*	**492**	317
Common shares	*11*	**1,653**	1,641
Retained earnings		**1,683**	1,343
		3,828	3,301
		75,827	69,801

André Bérard
Chairman of the Board and Chief Executive Officer

Jean Douville
Director

Consolidated Statement of Changes in Shareholders' Equity

Year ended October 31 (millions of dollars)	Note	2000	1999
Capital stock at beginning of year		**1,958**	1,644
Issuance of common shares		**12**	314
Issuance of preferred shares		**175**	—
Capital stock at end of year	*11*	**2,145**	1,958
Retained earnings at beginning of year		**1,343**	1,051
Net income		**509**	417
Dividends			
Preferred shares		**(28)**	(24)
Common shares		**(142)**	(123)
Income taxes related to dividends on preferred shares, Series 10, 11, 12 and 13		**(1)**	(1)
Share issuance expenses, net of income taxes		**(2)**	—
Unrealized foreign exchange gains, net of income taxes of $(7) (1999: $14)		**4**	23
Retained earnings at end of year		**1,683**	1,343

Consolidated Statement of Cash Flows

Year ended October 31 *(millions of dollars)*	*Note*	2000	1999
Cash flows from operating activities			
Net income		509	417
Adjustments for:			
Provision for credit losses		200	185
Amortization of premises and equipment		53	52
Goodwill charges		22	11
Deferred income taxes		(80)	(30)
Adjustment upon foreign currency translation of subordinated debentures		18	(22)
Gain on sale of investment account securities, net		(37)	(12)
Gain on sale of a subsidiary		(105)	—
Change in interest payable		(50)	63
Change in interest receivable		(89)	(44)
Current income taxes		(153)	124
Net change in unrealized (gains) or losses and amounts payable on derivative contracts		(164)	81
Net change in trading account securities		(633)	360
Net change in other items		1,511	(560)
		1,002	625
Cash flows from financing activities			
Increase in deposits		489	1,324
Issuance of subordinated debentures		717	250
Redemption of subordinated debentures		(409)	(159)
Issuance of common shares		12	13
Issuance of preferred shares		175	—
Dividends paid		(165)	(143)
Net change in obligations related to securities sold short		207	(135)
Net change in obligations related to securities sold under repurchase agreements		2,148	(4,146)
Net change in other items		152	(11)
		3,326	(3,007)
Cash flows from investing activities			
Net increase in loans		(2,902)	(1,361)
Proceeds from securitization of assets		1,771	2,110
Net change in investment account securities		767	(850)
Net change in securities purchased under reverse repurchase agreements		(1,917)	1,467
Net change in premises and equipment		47	(42)
Acquisition of First Marathon Inc., less cash acquired	*23*	—	(196)
Acquisition of shares of National Bank Financial & Co. Inc. held by non-controlling interest	*23*	—	(37)
		(2,234)	1,091
Net increase (decrease) in cash and cash equivalents		2,094	(1,291)
Cash and cash equivalents at beginning of year		3,561	4,852
Cash and cash equivalents at end of year		5,655	3,561
Cash and cash equivalents			
Cash and deposits with Bank of Canada		818	459
Deposits with financial institutions		4,837	3,102
Total		5,655	3,561
Interest paid		2,609	2,148
Income taxes paid		485	159

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of National Bank of Canada (the "Bank") were prepared in accordance with section 308(4) of the *Bank Act*, which states that Canadian generally accepted accounting principles are to be applied unless otherwise specified by the Superintendent. These principles differ in some regards from United States generally accepted accounting principles, as explained in Note 26.

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the period covered by the financial statements. Actual results could differ from those estimates.

The significant accounting policies used in preparing these consolidated financial statements, including the accounting treatment prescribed by the Superintendent, are summarized below. The Superintendent has specified an accounting treatment for the general allowance for credit risk which does not conform to Canadian generally accepted accounting principles; a comparison of this treatment is presented in Note 25. The accounting policies for all other financial statement items conform, in all material respects, to Canadian generally accepted accounting principles.

Consolidation

The consolidated financial statements of the Bank include the assets, liabilities and operating results of the Bank and all its subsidiaries after the elimination of intercompany transactions and balances. The purchase method is used to account for the acquisition of subsidiaries. Goodwill, which represents the excess of the purchase price over the fair value of the net assets of the subsidiaries purchased, is amortized using the straight-line method over a period corresponding to its estimated useful life of 20 years. Goodwill is written down to fair value when the impairment in value is considered to be permanent, based on projected investment yield which takes into account the related risks.

Investments in companies over which the Bank has significant influence, evidenced by a direct or indirect interest of between 20% and 50% in the voting shares, are accounted for by the equity method and are included in securities in the Consolidated Balance Sheet. The Bank's share of income from these companies is included in interest income and dividends in the Consolidated Statement of Income.

Translation of foreign currencies

Items in foreign currencies included in the Consolidated Balance Sheet are translated into Canadian dollars at the exchange rates prevailing at year-end. Revenues and expenses are translated at the average exchange rates prevailing during the year.

Spot and forward foreign exchange positions are kept in balance insofar as practicable. Any gain or loss on these positions is recognized in the Consolidated Statement of Income, with the exception of positions related to net foreign currency investments in offices and subsidiaries abroad.

Gains and losses on net foreign currency investments in branches and subsidiaries abroad are recorded under retained earnings, less the after-tax gains and losses applicable to instruments used for hedging purposes. These gains or losses are not charged to income until they are realized.

Cash and cash equivalents

Cash consists of cash on hand, bank notes and coin. Cash equivalents consist of deposits with the Bank of Canada, deposits with financial institutions, and cheques and other items in transit.

Securities

Securities are divided into two major categories: investment account securities and trading account securities.

Investment account securities are purchased with the intention of holding them to maturity. Equity securities are stated at their acquisition cost if the Bank does not have a significant influence while debt securities are stated at their unamortized acquisition cost. Premiums and discounts on debt securities are amortized using the effective yield method over the period to maturity of the related securities or, on occasion, until disposal of the security. Gains or losses realized on the disposal of securities and the amortization of premiums and discounts are recorded under income for the year. Any permanent impairment in the value of investment account securities is recorded under the year's income.

Trading account securities are purchased for resale in the short term. They are presented at their fair value based on publicly disclosed market prices. In the event market prices are not available, the fair value is estimated on the basis of the market prices of similar securities. Realized and unrealized gains or losses on these securities are recorded in income.

Investment account securities include loan substitutes. These securities are customer financings which have been structured as after-tax securities rather than conventional loans in order to provide the issuers with a borrowing rate advantage. These securities are recorded on the same basis as a loan.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Loans

Loans are stated net of the allowance for credit losses and general allowance for credit risk.

A loan, other than a credit card loan, is considered impaired when, in the opinion of management, there is reasonable doubt as to the ultimate collectibility of a portion of principal or interest or where payment of interest is contractually past due 90 days, unless there is no doubt as to the collectibility of principal and interest. A loan may revert to performing status only when principal and interest payments have become fully current. Credit card loans are written off if payments are more than 180 days in arrears.

When a loan is deemed impaired, interest ceases to be recorded and the carrying value of the loan is adjusted to its estimated realizable amount by writing off all or part of the loan and/or by taking a provision for credit losses.

Foreclosed assets held for sale in settlement of an impaired loan are recorded at the time of foreclosure at the lower of the recorded balance of the foreclosed loan or the estimated net proceeds from the sale of the assets. Any difference between the carrying value of the loan and the estimated realizable amount of the assets is recorded in the provision for credit losses. The loan is then adjusted to take into account the revenues received and the costs incurred after foreclosure.

The provision for credit losses, recorded in income for the year, consists of the net change in the allowance for credit losses and write-offs of the carrying values resulting from foreclosed assets, less recoveries.

Loan origination fees, including loan commitment, restructuring and renegotiation fees, are considered an integral part of the yield earned on the loan and are deferred and amortized to interest income over the term of the loan. Commitment fees are treated on the same basis if there is reasonable expectation that the commitment will result in a loan; the fees are then amortized to interest income over the term of the loan. Otherwise, the fees are included in other income over the term of the commitment. Loan syndication fees are recognized in other income, unless the yield on any loan retained by the Bank is less than that of other comparable lenders involved in the financing. In such cases, an appropriate portion of the fee is deferred and amortized to interest income over the term of the loan.

Loans also include securities purchased under reverse repurchase agreements which the Bank has purchased and simultaneously committed to resell to the initial buyer at a specified price on a specified date. Since ownership of the securities does not change, the transaction is treated as a loan by the Bank. The securities are recorded at cost and the related interest income is recorded on an accrual basis.

Allowance for credit losses

The allowance for credit losses reflects management's best estimate of losses in its credit portfolio as at the balance sheet date. This allowance relates primarily to loans, but also to the credit risk associated with deposits with other banks, derivative products, loan substitute securities and other credit instruments such as acceptances, guarantees and letters of credit. The allowance for credit losses, which consists of the specific allowance, the allowance for designated countries and the general allowance for credit risk, is increased by the provision for credit losses which is recorded under income and reduced by the amount of write-offs, net of recoveries.

The specific allowance related to loans considered impaired is established for all such loans for which the impairment could be estimated individually, reducing them to their estimated realizable amounts. For groups of loans consisting of large numbers of homogeneous balances of relatively small dollar amounts, the extent of impairment is estimated for each group of loans by applying formulas that take into account past loss experience, economic conditions and other relevant circumstances. The estimated realizable amounts are measured by discounting expected future cash flows. No specific allowance is established for credit cards, as balances are written off if no payments are received within 180 days.

The allowance for credit losses in relation to loans to countries designated by the Superintendent is constantly re-evaluated on the basis of exposure in the various countries and the underlying economic conditions.

In accordance with the guidelines of the Superintendent, the Bank maintains a general allowance for credit risk. The criteria for the general allowance for credit risk should include losses which management estimates to have occurred in the portfolio at the balance sheet date relating to individual loans or groups of loans not yet specifically identified as impaired. The general allowance for credit risk is not a substitute for the specific allowances that are set aside for impaired loans. The general allowance was established by taking into consideration historical trends in the loss experience during an economic cycle, the current portfolio profile and estimated credit losses for the current phase of the economic cycle.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Asset securitization

Mortgage loans

The Bank finances a portion of its mortgage loan portfolio through the mortgage-backed securities program provided for in the *National Housing Act*. Under this program, the Bank pools eligible mortgage loans and sells ownership rights in these pools to investors. Investors are paid a coupon rate set in advance and the principal from the underlying mortgages. The Canada Mortgage and Housing Corporation (CMHC) unconditionally guarantees the payments to the investors. The Bank continues to service the mortgage loans thus securitized.

The Bank is committed to the CMHC to make sufficient funds regularly available to the central payor and transfer agent to pay the amounts due to investors, whether or not the mortgagors have made their payments. Moreover, the Bank must place all funds due to investors at maturity of the securities at the disposal of the central payor and transfer agent. Should the Bank default, the CMHC can assign the servicing of the securitized loans to another servicer.

Issuance costs for mortgage-backed securities include the direct costs incurred in assembling and selling the securities and the discount at sale. These costs are charged in their entirety to the Consolidated Statement of Income at the time of sale by way of a deduction from the proceeds of sale of the securities.

The normal servicing fees which the Bank collects for servicing the securitized mortgage loans are set at 25 basis points. They are credited to other income when collected.

The Bank also collects a net interest spread over the life of the mortgage-backed securities. This spread is the interest collected from mortgagors less the sum of the interest paid to investors and the normal servicing fees. The estimated present value of the net interest spread, based on the assumption that the annual mortgage prepayment rate is between 4% and 18%, is added to the proceeds of sale of the securities as a receivable and is included in establishing the gains or losses at the date of sale. This receivable is drawn down as mortgage payments are received, and the resulting yield is charged to interest income.

Commercial mortgage loans and clients' credit card receivables

The securitization of credit card receivables and commercial mortgage loans consists in selling a portion of assets to a trust of which the Bank is not a beneficiary. These transactions are recorded as disposals when the significant risks and rewards of ownership of the receivables and the loans have been transferred and the amount of cash to be received can be estimated.

The purchase and sale contracts provide for the payment to the Bank of the proceeds of sale when the sum of interest and fees collected from customers exceeds the yield paid to investors on the assets, credit losses and other costs. Such proceeds are recorded as income when the amount is legally payable by the trust. The fees received for continuing to service the credit card receivables and commercial mortgage loans are recorded as income on an accrual basis.

Acceptances and customers' liability under acceptances

The potential liability of the Bank under acceptances is recorded as a liability in the Consolidated Balance Sheet. The Bank's potential recourse towards customers is recorded as an equivalent offsetting asset.

Premises and equipment

Premises and equipment are recorded at cost less accumulated amortization and are amortized over their estimated useful lives according to the following methods and rates:

	Methods	Rates
Buildings	(a) or (b)	2% to 10%
Equipment and furniture	(a) or (b)	20% to 33⅓%
Leasehold improvements	(a)	(c)

(a) straight-line
(b) diminishing-balance
(c) over the lease term plus the first renewal option

Obligations related to securities sold short

These liabilities represent the Bank's obligation to deliver securities it sold but did not own at the time of sale. Gains and losses on the sale and changes in fair value are recorded as income for the year.

Obligations related to securities sold under repurchase agreements

These liabilities represent securities which the Bank sold and simultaneously committed to repurchase from the initial buyer at a specified price on a specified date. Since ownership of the securities did not change, the operation is treated as a loan to the Bank. The securities are recorded at cost and the interest expense is recorded on an accrual basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Income taxes

The Bank provides for income taxes under the income tax allocation method. Deferred income taxes result from timing differences in the recognition of various items for financial reporting and for income tax purposes. Deferred income taxes represent tax benefits with respect to deductions the Bank may claim to reduce its taxable income in future years. No provision for deferred income taxes is taken for the portion of retained earnings of foreign subsidiaries which is permanently reinvested.

Derivative financial instruments

The Bank uses various types of derivatives to enable clients to manage their market risk exposures as well as for its own asset/liability management and for trading purposes.

The main derivative instruments used by the Bank are foreign exchange forward contracts, futures, forward rate agreements, foreign currency and/or interest rate swaps and interest rate or foreign currency options.

To be designated as a non-trading derivative contract and receive hedge accounting treatment, the contract must substantially offset the effects of interest rate or foreign exchange rate exposures for the Bank, must be documented at inception as a non-trading derivative contract, and must have a high correlation at inception and throughout the contract period between the derivative contract and the hedged risk.

When asset/liability management derivatives are used to manage interest rate and foreign currency exposures, the resulting gains or losses realized are deferred and amortized to income over the life of the hedged assets or liabilities.

Derivatives used to enable clients to manage their market risk exposures and to generate income from the Bank's trading activities are marked to market and the resulting gains or losses are recorded under income.

Gains and losses on derivative instruments generally used to hedge firm commitments are deferred. They are recognized in income or as adjustments to the carrying value of the assets and liabilities which they hedge in the period that the commitments occur.

Insurance revenues and expenses

Premiums less claims and changes in actuarial liabilities are reflected in other income. Investment income is included in income from securities in the Consolidated Statement of Income. Administrative costs are recorded under operating expenses in the Consolidated Statement of Income.

Assets under administration

The Bank administers and manages assets owned by clients but which are not reflected on the balance sheet. Asset management fees are earned for providing investment management and mutual fund services. Asset administration fees are earned for providing trust, estate administration and custodial services. Fees are recognized and reported in other income as the services are provided.

Pension plans and post-retirement benefits

Pension costs related to current services are charged to the Consolidated Statement of Income in the period during which the services are rendered. Past service costs, experience gains or losses and the funding excess existing on the date the accounting principle came into effect, which have not yet been charged to the Consolidated Statement of Income, are amortized over the expected average remaining service life of the employee group covered by the plans. The difference between the pension expense and the funding payments is recorded in the Consolidated Balance Sheet under "Other assets" or "Other liabilities", as applicable.

The Bank also offers a variety of post-retirement benefit plans such as health and dental care and life insurance coverage to its eligible retired employees and their dependants. The costs of these benefits are charged to income as they are incurred.

Stock option plan

The Bank provides compensation to certain employees in the form of a stock option plan. The exercise price for each option awarded is equal to the closing price of the common shares of the Bank on The Toronto Stock Exchange on the business day preceding the date of the award. When options are exercised, the proceeds to the Bank are credited to common shares.

(millions of dollars, unless otherwise indicated)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in fiscal 1999-2000.

2. CMHC-GUARANTEED MORTGAGE-BACKED SECURITIES

	2000	1999
Principal amount of securitized mortgage pools	**$4,206**	$3,420
Average rate of mortgage pools	**6.63%**	6.62%
Average coupon rate paid to investors	**5.18%**	5.11%
Maturity dates of securities	**September 2001 to November 2009**	December 1999 to December 2008
Present value of net interest spread	**$ 101**	$ 99

(millions of dollars, unless otherwise indicated)

3. SECURITIES

Securities held and effective yields on the investment account are as follows:

	Within 3 months		3 to 6 months		6 to 12 months	
	$	%	$	%	$	%
Investment account						
Securities issued or guaranteed by						
Canada	47	5.2	95	5.1	468	5.5
Provinces	117	6.1	24	6.0	93	8.5
Municipalities or school boards	—	—	—	—	5	10.5
Debt securities	565	7.4	117	6.8	103	6.7
Equity securities						
Floating-rate preferred shares	17	5.6	—	—	8	4.9
Fixed-rate preferred shares	14	6.6	—	—	3	4.9
Other securities	—	—	—	—	—	—
Loan substitutes	4	4.8	—	—	—	—
Total investment account	764	7.0	236	6.0	680	6.1
Trading account						
Securities issued or guaranteed by						
Canada	563		1,512		419	
Provinces	434		54		19	
Municipalities or school boards	38		19		29	
Debt securities	392		37		615	
Equity securities						
Floating-rate preferred shares	—		—		—	
Fixed-rate preferred shares	—		—		—	
Other securities	—		—		—	
Total trading account	1,427		1,622		1,082	
Total securities	2,191		1,858		1,762	

- Where no organized market exists for which prices are publicly disclosed, the fair value is estimated using the market prices of similar securities.
- The calculation of the yield rate is based on annual average balances. The yield rate of tax-exempt securities has not been adjusted on a taxable equivalent basis.
- Debt securities include loans restructured as bonds under the Brady Plan, net of the country risk allowance. Such bonds are guaranteed by the United States government and have longer maturities and more favourable conditions for the borrowing country.

(millions of dollars, unless otherwise indicated)

1 to 5 years		Over 5 years		No specific maturity		2000 Carrying value		1999 Carrying value	
$	%	$	%	$	%	$	%	$	%
2,278	5.3	199	6.0	—	—	**3,087**	**5.4**	4,030	5.7
11	7.9	86	8.7	—	—	**331**	**7.5**	473	6.1
2	6.2	2	6.3	—	—	**9**	**8.5**	12	5.1
372	7.0	96	4.3	8	—	**1,261**	**6.9**	1,638	5.8
25	5.2	20	5.7	32	—	**102**	**3.7**	85	1.9
87	6.7	—	—	63	—	**167**	**4.1**	127	0.7
—	—	—	—	1,349	1.8	**1,349**	**1.8**	663	0.3
44	3.3	—	—	33	—	**81**	**2.0**	89	1.8
2,819	5.5	403	6.2	1,485	1.7	**6,387**	**4.9**	7,117	5.1
579		847		—		**3,920**		4,177	
991		1,296		—		**2,794**		1,498	
140		111		—		**337**		476	
351		406		3		**1,804**		1,069	
—		—		—		**—**		—	
—		—		—		**—**		4	
—		—		1,593		**1,593**		2,591	
2,061		2,660		1,596		**10,448**		9,815	
4,880		3,063		3,081		**16,835**		16,932	

	2000				1999			
	Carrying value	Gross unrealized gains	Gross unrealized losses	**Fair value**	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Investment account								
Securities issued or guaranteed by								
Canada	3,087	11	(16)	**3,082**	4,030	3	(21)	4,012
Provinces	331	8	—	**339**	473	12	—	485
Municipalities or school boards	9	—	—	**9**	12	—	—	12
Debt securities	1,261	1	(14)	**1,248**	1,638	4	(28)	1,614
Equity securities								
Floating-rate preferred shares	102	1	(3)	**100**	85	—	(1)	84
Fixed-rate preferred shares	167	2	(2)	**167**	127	—	(2)	125
Other securities	1,349	99	(67)	**1,381**	663	38	(14)	687
Loan substitutes	81	—	(4)	**77**	89	2	(3)	88
Total investment account	6,387	122	(106)	**6,403**	7,117	59	(69)	7,107

Notes to the Consolidated Financial Statements

Year ended October 31, 2000
(millions of dollars, unless otherwise indicated)

4. IMPAIRED LOANS

The table below sets out impaired loans as at October 31. The balance of impaired loans is reduced, as applicable, by the related allowances.

	Impaired loans	Allowance	2000 Carrying value, net	1999 Carrying value, net
Private impaired loans				
DOMESTIC				
Residential mortgage loans	46	9	**37**	64
Personal loans	97	17	**80**	64
Small business loans	98	21	**77**	88
Corporate loans	89	66	**23**	3
Commercial loans	446	213	**233**	240
Real estate loans	78	52	**26**	33
Other loans	4	3	**1**	—
	858	381	**477**	492
INTERNATIONAL				
Commercial loans – United States	73	22	**51**	30
Real estate loans – United States	13	1	**12**	13
Other loans	13	9	**4**	7
	99	32	**67**	50
General allowance for credit risk[1]	—	500	**(500)**	(500)
Total private impaired loans	957	913	**44**	42
Loans to designated countries	35	35	**—**	1
Total impaired loans	992	948	**44**	43

Foreclosed assets held for sale in settlement of impaired loans which are included in total impaired loans together with the related allowance for credit losses amounted to $37 million and $6 million respectively as at October 31, 2000 compared to $47 million and $7 million as at October 31, 1999.

[1] *The general allowance for credit risk was taken for the Bank's loans in their entirety.*

5. ALLOWANCE FOR CREDIT LOSSES AND GENERAL ALLOWANCE FOR CREDIT RISK

The changes made to allowances during the year are as follows:

	Specific allowance	General allowance for credit risk	Designated countries (loans and securities)	2000 Total	1999 Total
Allowance at beginning of year	436	500	53	**989**	1,049
Provision for credit losses charged to income	200	—	—	**200**	185
Write-offs	(256)	—	(1)	**(257)**	(276)
Recoveries	33	—	—	**33**	31
Allowance at end of year	413	500	52	**965**	989
Portion related to loans	413	500	35	**948**	973
Portion related to securities			17	**17**	16

(millions of dollars, unless otherwise indicated)

6. PREMISES AND EQUIPMENT

	Cost	Accumulated amortization	2000 Carrying value, net	1999 Carrying value, net
Land	11	—	**11**	20
Buildings	96	37	**59**	148
Equipment and furniture	408	317	**91**	96
	515	354	**161**	264
Leasehold improvements			**88**	85
			249	349
Amortization for the year recorded in the Consolidated Statement of Income			**53**	52

7. OTHER ASSETS

	2000	1999
Interest receivable	**492**	403
Deferred income taxes	**151**	137
Prepaid expenses and other receivables	**948**	419
Goodwill less accumulated amortization of $93 (1999: $71)	**325**	350
Prepaid pension expense	**94**	91
Brokers' client accounts	**91**	262
Present value of net interest spread on CMHC-guaranteed securitized mortgage loans	**101**	99
Other	**507**	345
	2,709	2,106

8. DEPOSITS

	Payable on demand	Payable after notice	Payable on a fixed date	2000 Total	1999 Total
Personal	1,436	5,120	14,255	**20,811**	20,640
Business and government	4,554	3,699	15,602	**23,855**	22,724
Deposit-taking institutions	152	18	5,637	**5,807**	6,620
	6,142	8,837	35,494	**50,473**	49,984

9. OTHER LIABILITIES

	2000	1999
Interest payable	**728**	773
Income taxes payable	**74**	227
Liabilities of a subsidiary	**354**	227
Non-controlling interest	**468**	443
Trade and other payables	**3,176**	1,341
Brokers' client accounts	**91**	262
Other	**414**	381
	5,305	3,654

(millions of dollars, unless otherwise indicated)

10. SUBORDINATED DEBENTURES

The debentures are subordinated in right of payment to the claims of depositors and certain other creditors. Where appropriate, the Bank enters into interest rate options, interest rate swaps and foreign currency swaps to protect itself against the related interest rate and foreign currency risks.

Maturity date		Interest rate	Characteristics	**2000**	1999
April	2001	10.50%	Interest payable semi-annually on April 5 and October 5; not redeemable prior to maturity	**17**	17
June	2001	12.50%	Convertible into 2,391,600 common shares, redeemable at the Bank's option on certain conditions; interest payable semi-annually on June 5 and December 5	**20**	20
December	2003	7.50%	Not redeemable by the Bank prior to maturity; interest payable semi-annually on June 30 and December 30	**45**	125
August	2004	8.125%	US $250 million; not redeemable by the Bank prior to maturity unless the debentures become subject to foreign taxes; interest payable semi-annually on February 15 and August 15	**40**	368
November	2009	7.75%	US $250 million; not redeemable by the Bank prior to maturity unless the debentures become subject to foreign taxes; interest payable semi-annually on May 1 and November 1	**381**	—
June	2010	6.90%	Not redeemable prior to June 7, 2005; interest payable semi-annually on June 7 and December 7 at a rate of 6.90% until June 7, 2005. Thereafter, interest payable quarterly at an annual rate equal to the 90-day acceptance rate plus 1%	**350**	—
October	2011	7.50%	Not redeemable prior to October 17, 2001; interest payable semi-annually on April 17 and October 17 at a rate of 7.50% until October 17, 2006. Thereafter, interest payable at an annual rate equal to the 90-day acceptance rate plus 1%	**150**	150
April	2014	5.70%	Not redeemable prior to April 16, 2004; interest payable semi-annually on April 16 and October 16 at a rate of 5.70% until April 16, 2009. Thereafter, interest payable at an annual rate equal to the 90-day acceptance rate plus 1%	**250**	250
February	2087	floating	US $71 million bearing interest at an annual rate of ⅛% above LIBOR; interest payable semi-annually on February 28 and August 31; redeemable at the Bank's option since February 28, 1993	**108**	105
Total				**1,361**	1,035

The debenture maturities are as follows:

2001	**37**
2002	**—**
2003	**45**
2004	**40**
2005	**—**
2006 and thereafter	**1,239**

(millions of dollars, unless otherwise indicated)

11. CAPITAL STOCK

Authorized

FIRST PREFERRED SHARES
An unlimited number of shares, without par value, issuable for a maximum aggregate consideration of $1 billion

SECOND PREFERRED SHARES
15,000,000 shares, without par value, issuable for a maximum aggregate consideration of $300 million

COMMON SHARES
An unlimited number of shares, without par value, issuable for a maximum aggregate consideration of $3 billion

Issued and fully paid

	2000	1999
First preferred shares		
3,680,000 shares, Series 10 (1999: 3,680,000)	**92**	92
4,000,000 shares, Series 11 (1999: 4,000,000)	**100**	100
5,000,000 shares, Series 12 (1999: 5,000,000)	**125**	125
7,000,000 shares, Series 13 (1999: —)	**175**	—
	492	317
189,474,149 common shares (1999: 188,728,712)	**1,653**	1,641
	2,145	1,958

The Bank paid the following dividends:

				(dividends per share in dollars)	
	2000	1999	1998	1997	1996
Common shares	**0.75**	0.70	0.66	0.575	0.49
First preferred shares					
Series 5	**—**	—	3.9531	3.3670	4.8235
Series 7	**—**	—	1.03065	0.8777	1.2576
Series 8	**—**	—	0.9883	0.8417	1.2059
Series 10	**2.1875**	2.1875	2.1875	2.1875	2.1875
Series 11	**2.00**	2.00	2.00	2.00	2.00
Series 12	**1.625**	1.625	1.625	1.625	1.625
Series 13	**0.5447**	—	—	—	—

Issuance of common shares (amounts in dollars)

During the year ended October 31, 2000, 745,437 common shares were issued under the Dividend Reinvestment and Share Purchase Plan and the Stock Option Plan for an aggregate consideration of $11,640,945.

During the year ended October 31, 1999, 862,495 common shares were issued under the Dividend Reinvestment and Share Purchase Plan and the Stock Option Plan for an aggregate consideration of $12,476,345. In addition, the Bank issued 16,250,000 shares for an amount of $301,275,000 as partial consideration for the acquisition of all the outstanding common shares of First Marathon Inc.

Issuance of preferred shares (amounts in dollars)

On July 13, 2000, the Bank issued 7,000,000 preferred shares, Series 13 for an aggregate consideration of $175,000,000.

Reserved common shares (amounts in dollars)

As at October 31, 2000, 2,391,600 (1999: 2,391,600) common shares were reserved for future conversion, 5,144,786 (1999: 5,574,138) common shares were reserved under the Dividend Reinvestment and Share Purchase Plan and 5,043,515 (1999: 5,359,600) common shares were reserved under the Stock Option Plan.

Stock-based compensation

The Bank has three stock-based compensation plans:

Stock Appreciation Rights Plan

The Bank offers a Stock Appreciation Rights ("SAR") Plan to senior management and other key employees of the Bank and its subsidiaries ("beneficiaries"). Under the SAR Plan, when beneficiaries exercise their SARs, they receive a cash amount equal to the difference between the market price of a common share on the exercise date of the SAR and the exercise price of the SAR. The exercise price of each SAR awarded is equal to the closing price of the Bank's common shares on The Toronto Stock Exchange on the business day preceding the date of the award. The SARs vest evenly over a four-year period and expire 10 years from the award date or, in certain circumstances set out in the SAR Plan, expire within specified time limits. The Bank calculates the expense with respect to SARs based on the expected exercise rate and the excess of market price over strike price and taking hedges into account. The expense recognized in respect of the SAR Plan was $3.7 million in 2000 and $1.3 million in 1999.

(millions of dollars, unless otherwise indicated)

11. CAPITAL STOCK (cont.)

Stock Appreciation Rights Plan

	2000		1999	
	Number of SARs	**Weighted average exercise price**	Number of SARs	Weighted average exercise price
Outstanding at beginning of year	3,016,800	**$22.48**	1,890,400	$20.56
Awarded	1,967,900	**$17.35**	1,257,600	$25.00
Exercised	54,400	**$14.31**	57,075	$14.08
Cancelled or expired	149,375	**$22.39**	74,125	$22.79
Outstanding at end of year	4,780,925	**$20.45**	3,016,800	$22.48
Exercisable at end of year	1,223,038	**$20.03**	531,219	$19.54

SARs outstanding

	Strike price	SARs outstanding	Exercisable SARs	Expiry date
	$13.50	556,900	374,181	December 2006
	$24.50	1,112,225	554,613	December 2007
	$25.00	1,176,975	294,244	December 2008
	$17.35	1,934,825	—	December 2009
Total		4,780,925	1,223,038	

Stock Option Plan

The Bank offers a Stock Option Plan to senior management and other key employees of the Bank and its subsidiaries ("designated employees"). Under the Bank's Stock Option Plan, options are periodically awarded to designated employees. These options provide employees with the right to purchase the Bank's common shares at a strike price equal to the market price of the stock on the day preceding the date of the award. The options vest evenly over a four-year period and expire 10 years from the award date or, in certain circumstances set out in the plan, expire within specified time limits. The maximum number of common shares that could be issued under the Stock Option Plan was 5,043,515 as at October 31, 2000. The maximum number of common shares reserved for a participant may not exceed 5% of the total number of Bank shares issued and outstanding. When options are exercised, the proceeds are credited to common shares.

Stock Option Plan

	2000		1999	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	1,837,600	**$11.70**	2,401,602	$11.42
Awarded	—	**—**	—	—
Exercised	316,085	**$10.60**	542,402	$10.42
Cancelled or expired	19,900	**$11.74**	21,600	$12.77
Outstanding at end of year	1,501,615	**$11.92**	1,837,600	$11.70
Exercisable at end of year	1,317,865	**$11.71**	1,062,500	$11.33

Options outstanding

	Strike price	Stock options outstanding	Exercisable stock options	Expiry date
	$11.00	946,050	946,050	December 2005
	$13.50	555,565	371,815	December 2006
Total		1,501,615	1,317,865	

Employee Share Purchase Plan

Under the Bank's Share Purchase Plan, employees who meet the eligibility criteria can contribute up to 8% of their annual gross salary by way of payroll deductions. The Bank matches 25% of the employee contribution amount. All Bank contributions vest in the employee after one year of continuous participation in the plan, and all subsequent contributions vest immediately. The Bank's contribution is expensed as paid ($2.5 million in 2000, $2.3 million in 1999).

11. CAPITAL STOCK (cont.)

Restriction on the payment of dividends

Under the *Bank Act* (Canada), the Bank is prohibited from declaring dividends on its common or preferred shares if there are reasonable grounds for believing that the Bank is, or the payment would cause the Bank to be, in contravention of the capital adequacy and liquidity regulations of the *Bank Act* or the guidelines of the Superintendent. In addition, the ability to pay common share dividends is restricted by the terms of the outstanding preferred shares whereby the Bank may not pay dividends on its common shares without the approval of the holders of the outstanding preferred shares, unless all preferred share dividends have been declared and paid or set aside for payment.

Characteristics of first preferred shares (amounts in dollars)

Series 10

Redeemable at the Bank's option on or after November 16, 2001 at $25 per share in cash plus accrued and unpaid dividends, or by conversion into common shares in accordance with the privileges and conditions related to such preferred shares; non-cumulative preferential dividends, payable quarterly in an amount of $0.546875 per share.

Convertible at the holder's option on or after February 18, 2002 into common shares or into another series of preferred shares if the Bank's Board of Directors should decide, by resolution at least 30 days prior to February 18, 2002, to authorize a further series of first preferred shares, subject to the prior approval of the Superintendent. The Bank may, upon notice of not less than two business days prior to the conversion date, redeem the preferred shares to be converted.

Series 11

Redeemable at the Bank's option on or after February 15, 2002 at $25 per share in cash plus accrued and unpaid dividends, or by conversion into common shares in accordance with the privileges and conditions related to such preferred shares; non-cumulative preferential dividends, payable quarterly in an amount of $0.50 per share.

Convertible at the holder's option on or after May 15, 2002 into common shares or into another series of preferred shares if the Bank's Board of Directors should decide, by resolution at least 30 days prior to February 15, 2002, to authorize a further series of first preferred shares, subject to the prior approval of the Superintendent. The Bank may, upon notice of not less than two business days prior to the conversion date, redeem the preferred shares to be converted.

Series 12

Redeemable at the Bank's option on or after May 15, 2001 at $25 per share in cash, plus a premium if redeemed before May 15, 2003, together with accrued and unpaid dividends, in accordance with the privileges and conditions related to such preferred shares and subject to the prior approval of the Superintendent; non-cumulative preferential dividends, payable quarterly in an amount of $0.40625 per share.

Convertible at the Bank's option on or after May 15, 2001 into common shares, subject to the approval of the stock exchange on which the shares of the Bank are listed.

Convertible at the holder's option on or after May 15, 2004 into common shares in accordance with the privileges and conditions related to such preferred shares, or into another series of preferred shares if the Bank's Board of Directors should decide, by resolution at least 30 days prior to May 15, 2004, to authorize a further series of first preferred shares, subject to the prior approval of the Superintendent. The Bank may, upon notice of not less than two business days prior to the conversion date, redeem the preferred shares to be converted.

Series 13

Redeemable for cash at the Bank's option, subject to obtaining the consent of the Superintendent and upon notice of not more than 60 and not less than 30 days, i) on August 15, 2005 and on the last day of each period of five years plus one day thereafter (conversion date), in whole at any time or in part from time to time, at a price of $25 per share, plus all declared and unpaid dividends at the date fixed for redemption and, ii) after August 15, 2005, other than on a conversion date, in whole but not in part, at a price of $25.50 per share, plus all declared and unpaid dividends at the date fixed for redemption; non-cumulative preferential dividends, payable quarterly in an amount of $0.40 per share for the first five years and variable thereafter.

Convertible at the holder's option on August 15, 2005 or a subsequent conversion date, into fully paid preferred shares, Series 14.

(millions of dollars, unless otherwise indicated)

12. PENSION PLANS AND POST-RETIREMENT BENEFITS

The Bank administers several retirement plans on behalf of its employees. The employee pension plans of the Bank provide for the payment of benefits based on the length of service and final average earnings of the employees covered by the plans. According to the latest actuarial valuation of the main plans conducted as at December 31, 1997, the present value of accrued pension benefits, projected as at October 31, 2000, is $925 million and the adjusted market value of the assets of the plans as at October 31, 2000 amount to $1,089 million. The pension expense included in the Consolidated Statement of Income amounts to $4 million (1999: $3.7 million), taking into account the amortization on a straight-line basis over a 14-year period of the experience gains and losses and the funding excess existing on the date the accounting policy came into effect.

Post-retirement life insurance and health and dental care benefits are expensed as incurred and amounted to $2.7 million in 2000 ($2.6 million in 1999).

13. OTHER OPERATING EXPENSES

During the year, management of the Bank approved programs designed to reduce operating expenses as part of its Operational Excellence project. An amount of $30 million had been incurred as at October 31, 2000 with respect to the activities planned under these programs, which include optimizing and centralizing certain support services. As at October 31, 2000, other liabilities included a provision of $19 million related primarily to personnel reduction. Most of the programs should be completed during fiscal 2001.

The Bank also undertook a project to revise its distribution network, which includes consolidating and closing branches in Quebec and Ontario. A $25 million charge, which includes provisions for severance benefits, lease termination costs and expenses incurred for the consolidation of banking outlets, was recorded in income for the year. As at October 31, 2000, other liabilities included an unexpended balance of $18 million, which will be disbursed in fiscal 2001.

14. INCOME TAXES

The income taxes reported in the consolidated financial statements are as follows:

	2000	1999
Consolidated Statement of Income		
Income taxes	259	238
Consolidated Statement of Retained Earnings		
Income taxes related to:		
Dividends on preferred shares, Series 10, 11, 12 and 13	1	1
Unrealized foreign exchange gains	(7)	14
	(6)	15
	253	253
The income taxes are as follows:		
Current	333	283
Deferred	(80)	(30)
	253	253

(millions of dollars, unless otherwise indicated)

14. INCOME TAXES (cont.)

The Bank's effective income tax rate on income before income taxes is calculated as follows:

		2000		1999
Income before income taxes	**$816**	**100.0%**	$698	100.0%
Income taxes at Canadian statutory income tax rate	**$313**	**38.4%**	$272	39.0%
Increase (reduction) in income tax rate due to:				
Tax-exempt income from securities, mainly dividends from Canadian corporations	**(26)**	**(3.2)**	(23)	(3.3)
Rate applicable to subsidiaries abroad	**(16)**	**(2.0)**	(13)	(1.9)
Federal large corporations tax and surtax	**11**	**1.4**	10	1.4
Gain on sale of a subsidiary	**(17)**	**(2.1)**	—	—
Other items	**(6)**	**(0.7)**	(8)	(1.1)
	(54)	**(6.6)**	(34)	(4.9)
Income taxes and effective income tax rate	**$259**	**31.8%**	$238	34.1%

15. INCOME PER COMMON SHARE

Basic income per common share before goodwill charges and basic net income per common share were calculated on the basis of income before goodwill charges and net income, less dividends on preferred shares, and the average number of common shares outstanding of 189,214,000 in 2000 (1999: 175,746,000).

Fully diluted income per common share before goodwill charges and fully diluted net income per common share were calculated on the basis of income before goodwill charges and net income, less dividends on non-convertible preferred shares, and the average number of common shares of 191,605,000 in 2000 (1999: 178,138,000), assuming that all securities convertible at the holder's option (except for preferred shares, Series 10, 11, 12 and 13) were converted at the beginning of each fiscal year.

16. CONTINGENT LIABILITIES

Commitments

As at October 31, 2000, minimum commitments under leases, contracts for outsourced information technology services, and equipment and furniture leasing agreements were as follows:

	Premises	Service contracts[1]	Equipment and furniture	Total
2001	93	147	9	249
2002	81	147	7	235
2003	74	146	4	224
2004	66	69	1	136
2005	63	62	—	125
2006 and thereafter	534	257	—	791
	911	828	21	1,760

[1] *The Bank awarded a 10-year service contract to COGNICASE INC., an affiliated corporation, representing an estimated amount of $537 million as at October 31, 2000.*

Pledged assets

Securities with a carrying value of $2,986 million (1999: $1,940 million) have been pledged as collateral for various types of funding transactions including obligations related to securities sold under repurchase agreements and obligations related to securities sold short. Included in the above amount are assets with a carrying value of $276 million (1999: $311 million) deposited as collateral in order to participate in clearing and payment systems and depositories.

(millions of dollars, unless otherwise indicated)

16. CONTINGENT LIABILITIES (cont.)

Credit instruments

In the normal course of business, the Bank enters into various off-balance sheet commitments. The credit instruments used to meet the financing needs of its clients represent the maximum amount of additional credit that the Bank could be obligated to extend if the commitments were fully utilized.

As at September 30	2000	1999
Letters of guarantee	**1,921**	2,047
Documentary letters of credit	**150**	265
Commitments to extend credit		
Original term of one year or less	**5,367**	5,886
Original term of more than one year	**10,532**	11,550

Letters of guarantee are firm commitments by the Bank to make payments on behalf of a client which is unable to meet its contractual obligations to a third party. They represent the same credit risk as loans.

Documentary letters of credit are documents issued by the Bank which are used in international trade to enable a third party to draw drafts on the Bank up to an amount established under specific terms and conditions, and are collateralized by the delivery of the goods they represent.

Commitments to extend credit represent the unused portions of credit authorizations granted in the form of loans, acceptances, letters of guarantee and documentary letters of credit. The Bank is required at all times to make the unused portion of the authorization available, subject to certain conditions.

Litigation

Various legal proceedings are pending against the Bank and its subsidiaries. In management's opinion, the aggregate amount of potential liability related thereto will not have a material impact on the Bank's financial position.

17. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses derivative instruments for asset/liability management and for trading purposes. The derivatives used to manage the balance sheet serve to protect net interest income against the risk of fluctuations in interest and exchange rates. Trading activities enable clients to manage their risks and also include proprietary trading undertaken by the Bank.

The various derivative financial instruments listed in the tables below are defined as follows:

Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

Futures are commitments to purchase or deliver securities or money market instruments on a specified future date at a specified price. Futures are traded in standardized amounts on organized exchanges and are subject to daily cash margining.

Forward rate agreements are contracts fixing an interest rate to be paid or received, calculated on a notional principal amount with a specified maturity commencing at a specified future date.

Interest rate and foreign currency swaps are transactions that generally involve the contractual exchange of fixed and floating rate interest payment obligations and/or currencies on a specified amount of notional principal for a specified period of time.

Foreign currency and interest rate options are agreements between two parties in which the writer of the option grants the buyer the future right, but not the obligation, to buy or to sell, at or by a predetermined date or at any time within a specified period of time, a specific amount of a derivative financial instrument at a price agreed to when the option is arranged. The writer receives a premium for selling this instrument.

Notional principal amounts, upon which payments are based, are not indicative of the credit risk associated with derivative financial instruments.

(millions of dollars, unless otherwise indicated)

17. DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

As at September 30	Contracts held for trading purposes	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	2000 Total contracts	1999 Contracts held for trading purposes	1999 Total contracts
		Remaining term to maturity						
Foreign exchange contracts								
OTC contracts								
Forwards	35,447	16,431	14,513	5,472	8	**36,424**	39,220	40,040
Swaps	722	2,306	3,950	—	—	**6,256**	353	7,014
Options purchased	6,813	4,541	1,767	470	35	**6,813**	7,937	7,937
Options written	6,534	4,244	1,701	568	21	**6,534**	8,871	8,871
TOTAL	49,516	27,522	21,931	6,510	64	**56,027**	56,381	63,862
Exchange-traded contracts								
Futures								
Long positions	599	599	—	—	—	**599**	36	36
Short positions	55	16	39	—	—	**55**	658	658
Options purchased	88	88	—	—	—	**88**	328	328
Options written	75	45	30	—	—	**75**	127	127
TOTAL	817	748	69	—	—	**817**	1,149	1,149
Interest rate contracts								
OTC contracts								
Forward rate agreements	9,752	8,383	2,121	—	—	**10,504**	13,009	19,752
Swaps	19,642	18,133	22,730	16,128	1,065	**58,056**	22,971	71,070
Options purchased	39,006	8,228	31,210	5	—	**39,443**	10,852	13,282
Options written	44,896	9,950	35,496	—	—	**45,446**	16,119	25,340
TOTAL	113,296	44,694	91,557	16,133	1,065	**153,449**	62,951	129,444
Exchange-traded contracts								
Futures								
Long positions	1,603	2,294	2,001	249	—	**4,544**	5,012	5,012
Short positions	6,781	5,223	1,558	—	—	**6,781**	4,530	4,530
Options purchased	24,631	12,853	11,778	—	—	**24,631**	18,031	18,031
Options written	25,080	13,063	12,017	—	—	**25,080**	18,595	18,595
TOTAL	58,095	33,433	27,354	249	—	**61,036**	46,168	46,168
Equity and commodity contracts								
OTC contracts								
Futures	1,196	1,173	—	23	—	**1,196**	—	—
Swaps	3,085	66	1,887	1,096	36	**3,085**	651	651
Options purchased	4,891	—	1,914	2,204	829	**4,947**	882	882
Options written	5,081	29	2,002	2,282	820	**5,133**	976	976
TOTAL	14,253	1,268	5,803	5,605	1,685	**14,361**	2,509	2,509
Exchange-traded contracts								
Futures								
Long positions	4,080	2,002	2,078	—	—	**4,080**	831	831
Short positions	4,582	2,232	2,350	—	—	**4,582**	1,149	1,149
Options purchased	13	7	6	—	—	**13**	6	6
Options written	28	20	8	—	—	**28**	33	33
TOTAL	8,703	4,261	4,442	—	—	**8,703**	2,019	2,019
2000 TOTAL	**244,680**	**111,926**	**151,156**	**28,497**	**2,814**	**294,393**		
1999 TOTAL	171,177	119,559	91,347	32,021	2,224	245,151	171,177	245,151

(millions of dollars, unless otherwise indicated)

17. DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

Credit risk on derivative financial instruments is the risk of a financial loss occurring as a result of a counterparty defaulting on its obligations to the Bank. The current replacement cost, which is the positive fair value of all outstanding derivative financial instruments, represents the Bank's maximum derivative credit exposure. The credit equivalent amount is calculated taking into account the current replacement cost of all outstanding contracts in a gain position, potential future exposure and the impact of master netting agreements. The risk-weighted amount is the credit equivalent amount multiplied by the counterparty risk factors prescribed by the Superintendent. The Bank negotiates master netting agreements with counterparties with which it has significant credit risk exposure resulting from derivative transactions. Such agreements provide for the simultaneous close out and netting of all transactions with a counterparty in the event of default. An increasing number of these agreements also provide for the exchange of collateral between parties in the event that the amount of outstanding marked-to-market transactions between the parties exceeds an agreed threshold.

As at September 30, credit risk exposure on the derivatives portfolio was as follows:

				2000				1999
	Notional amount	**Replacement cost**	**Credit equivalent amount**	**Risk-weighted amount**	Notional amount	Replacement cost	Credit equivalent amount	Risk-weighted amount
Foreign exchange contracts	**56,844**	**560**	**1,066**	**331**	65,011	274	784	244
Interest rate contracts	**214,485**	**275**	**380**	**84**	175,612	166	250	65
Equity and commodity contracts	**23,064**	**102**	**478**	**187**	4,528	45	126	72
TOTAL	**294,393**	**937**	**1,924**	**602**	245,151	485	1,160	381

As at September 30, the distribution of risk exposure by counterparty was as follows:

		2000		1999
	Replacement cost	**Credit equivalent amount**	Replacement cost	Credit equivalent amount
OECD governments	**12**	**17**	16	23
OECD banks	**1,168**	**1,171**	718	685
Other	**281**	**736**	229	452
	1,461	**1,924**	963	1,160

(millions of dollars, unless otherwise indicated)

18. GEOGRAPHIC DISTRIBUTION OF EARNING ASSETS BY ULTIMATE RISK

	2000		1999	
	$	%	$	%
North America				
Canada	**53,776**	**80.0**	56,501	83.6
United States	**7,274**	**10.8**	7,436	11.0
	61,050	**90.8**	63,937	94.6
Europe				
United Kingdom	**1,144**	**1.7**	757	1.1
France	**1,352**	**2.0**	424	0.6
Germany	**1,053**	**1.6**	616	0.9
Other	**1,488**	**2.2**	1,017	1.5
	5,037	**7.5**	2,814	4.1
Latin America and Caribbean	**723**	**1.1**	600	0.9
Asia and Pacific	**317**	**0.5**	216	0.3
Middle East and Africa	**43**	**0.1**	38	0.1
Earning assets as at September 30	**67,170**	**100.0**	67,605	100.0
Other assets as at September 30	**7,157**		6,089	
Net change in total assets in October	**1,500**		(3,893)	
Total assets as at October 31	**75,827**		69,801	

Earning assets are those which bear interest. Consequently, they do not include cash, deposits with the Bank of Canada, cheques and other items in transit (net value), customers' liability under acceptances, premises and equipment, and other assets. The Bank's earning assets as at September 30 were distributed according to the location of ultimate risk, namely, the geographic location of the borrower or, if applicable, the guarantor. Earning assets are calculated net of any allowance for credit losses and the general allowance for credit risk, and are presented separately for each country where the Bank's exposure exceeds an amount equal to 0.75% of total earning assets.

There is no significant concentration of credit risk in any given sector.

(millions of dollars, unless otherwise indicated)

19. INTEREST RATE SENSITIVITY POSITION

Analyzing interest rate sensitivity gaps is one of the methods used by the Bank to manage interest rate risk.

The following breakdown of assets and liabilities by maturity illustrates the sensitivity of the Bank's balance sheet to interest rate fluctuations as at October 31, 2000.

	Floating rate	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
ASSETS							
Cash resources	886	3,477	848	—	—	444	**5,655**
Effective yield		5.6%	6.6%				
Securities	—	2,191	3,620	4,880	3,063	3,081	**16,835**
Effective yield		7.0%	6.1%	5.5%	6.2%		
Loans	17,488	12,071	5,965	8,920	469	1,826	**46,739**
Effective yield		6.2%	7.2%	7.5%	7.4%		
Other	10	—	—	—	—	6,588	**6,598**
	18,384	17,739	10,433	13,800	3,532	11,939	**75,827**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Deposits	7,913	18,686	10,763	11,462	181	1,468	**50,473**
Effective yield		6.0%	5.5%	4.7%	5.9%		
Other debt[1]	817	5,310	472	1,195	2,139	1,287	**11,220**
Effective yield		3.6%	4.3%	5.8%	6.1%		
Subordinated debentures	—	—	145	435	781	—	**1,361**
Effective yield			7.9%	7.1%	7.0%		
Acceptances and other liabilities	—	—	—	—	—	8,945	**8,945**
Shareholders' equity	—	—	—	492	—	3,336	**3,828**
	8,730	23,996	11,380	13,584	3,101	15,036	**75,827**
On-balance sheet gap	9,654	(6,257)	(947)	216	431	(3,097)	**—**
Derivative financial instruments	—	(2,221)	(1,115)	2,915	808	(269)	**118**
Total	9,654	(8,478)	(2,062)	3,131	1,239	(3,366)	**118**
Position in Canadian dollars							
On-balance sheet total	7,500	(1,851)	108	(260)	424	(5,497)	**424**
Derivative financial instruments	—	(3,413)	(1,479)	2,187	230	(265)	**(2,740)**
Total	7,500	(5,264)	(1,371)	1,927	654	(5,762)	**(2,316)**
Position in foreign currency							
On-balance sheet total	2,154	(4,407)	(1,055)	478	7	2,399	**(424)**
Derivative financial instruments	—	1,193	364	726	578	(3)	**2,858**
Total	2,154	(3,214)	(691)	1,204	585	2,396	**2,434**
2000 TOTAL	**9,654**	**(8,478)**	**(2,062)**	**3,131**	**1,239**	**(3,366)**	**118**
1999 TOTAL	6,701	(5,488)	(169)	1,537	448	(3,134)	(105)

Effective yield represents the weighted average effective yield based on the earlier of contractual repricing or the maturity date.

[1] *Represents obligations related to securities sold short and securities sold under repurchase agreements.*

(millions of dollars, unless otherwise indicated)

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present the fair value of on and off-balance sheet financial instruments based on the valuation methods and assumptions set out below.

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price. If no quoted market prices are available, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the net realizable value.

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as land, buildings, equipment and furniture. Due to the judgement used in applying a wide range of acceptable valuation techniques and estimations in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may therefore not be reflective of future fair values.

	2000			1999		
	Carrying value	**Fair value**	**Difference**	Carrying value	Fair value	Difference
Assets						
Cash resources	**5,655**	**5,655**	**—**	3,561	3,561	—
Securities	**16,835**	**16,851**	**16**	16,932	16,922	(10)
Loans	**46,739**	**46,560**	**(179)**	43,891	43,602	(289)
Other assets	**6,598**	**6,598**	**—**	5,417	5,417	—
TOTAL	**75,827**	**75,664**	**(163)**	69,801	69,502	(299)
Liabilities						
Deposits	**50,473**	**50,525**	**52**	49,984	49,964	(20)
Other liabilities	**20,165**	**20,165**	**—**	15,481	15,481	—
Subordinated debentures	**1,361**	**1,361**	**—**	1,035	1,010	(25)
TOTAL	**71,999**	**72,051**	**52**	66,500	66,455	(45)

The fair value of derivatives is as follows:

	2000				1999			
	Contracts held for trading purposes		**Contracts held for non-trading purposes**		Contracts held for trading purposes		Contracts held for non-trading purposes	
	Gross assets	**Gross liabilities**	**Gross assets**	**Gross liabilities**	Gross assets	Gross liabilities	Gross assets	Gross liabilities
Foreign exchange contracts	**991**	**997**	**58**	**68**	614	548	83	128
Interest rate contracts	**143**	**136**	**294**	**77**	63	70	247	104
Equity contracts	**136**	**344**	**9**	**11**	156	57	—	—
TOTAL	**1,270**	**1,477**	**361**	**156**	833	675	330	232

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

Valuation methods and assumptions

Cash resources, other assets and other liabilities:	Due to their short-term maturity, the fair value of these financial instruments is assumed to be equal to their carrying value.
Securities:	The fair value of securities is presented in Note 3 to the consolidated financial statements. It is based on quoted market prices. If quoted market prices are not available, fair value is estimated using the quoted market prices of similar securities.
Loans:	The fair value of floating-rate loans is assumed to be equal to their carrying value. The fair value of other loans is estimated using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans as at the balance sheet date applied to expected maturity amounts (adjusted for any prepayments).
Deposits:	The fair value of fixed-rate deposits is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with the same remaining terms to maturity. The fair value of deposits with no stated maturity is assumed to be equal to their carrying value.
Subordinated debentures:	The fair value of subordinated debentures is determined by discounting the contractual cash flows, using market interest rates currently offered for similar financial instruments with the same remaining terms to maturity.
Derivatives:	The fair value of derivatives is determined, before the impact of master netting agreements, using various methodologies including quoted market prices, prevailing market rates for instruments with similar characteristics and maturities, net present value analysis or other pricing models as appropriate.

21. RELATED PARTY TRANSACTIONS

The Bank grants loans to its directors, officers and staff under various conditions. Total outstanding loans of this type amounted to:

	2000	1999
Mortgage loans	**362**	371
Personal loans	**210**	183

(millions of dollars, unless otherwise indicated)

22. SEGMENT DISCLOSURES

The Bank carries out its activities in three reportable segments described hereinafter, the other operating segments being grouped together for presentation purposes. Each reportable segment is distinguished by the services offered, the type of client and the marketing strategies. The following summary briefly describes the operations included in each of the Bank's reportable segments.

Personal Banking and Wealth Management
This segment comprises the branch network, intermediary services, full-service retail brokerage, discount brokerage, mutual funds, trust services, credit cards and insurance.

Commercial Banking
This segment includes commercial banking services in Canada and the United States.

Financial Markets, Treasury and Investment Banking
This segment consists of corporate lending, treasury operations which include asset and liability management, corporate brokerage and portfolio management.

Other segments
This segment comprises the real estate segment, the international division and the unallocated portion of centralized service units.

The accounting policies of the reportable segments are the same as those described in the note on accounting policies, with the exception of total revenues and income taxes which are presented on a taxable equivalent basis. Head Office expenses are recorded under segment results. The Bank assesses performance based on income before goodwill charges. Intersegment revenues are recorded at the exchange amount. Segment assets are average assets directly used in segment operations.

	Personal Banking and Wealth Management		Commercial Banking		Financial Markets, Treasury and Investment Banking		Other segments		Total	
	2000	1999	**2000**	1999	**2000**	1999	**2000**	1999	**2000**	1999
Net interest income(1)	**917**	855	**376**	342	**112**	138	**(71)**	(16)	**1,334**	1,319
Other income(1)	**966**	718	**129**	119	**562**	264	**313**	162	**1,970**	1,263
Total revenues	**1,883**	1,573	**505**	461	**674**	402	**242**	146	**3,304**	2,582
Operating expenses	**1,365**	1,188	**190**	178	**362**	190	**267**	106	**2,184**	1,662
Contribution	**518**	385	**315**	283	**312**	212	**(25)**	40	**1,120**	920
Provision for credit losses	**90**	91	**63**	65	**16**	16	**31**	13	**200**	185
Income before income taxes and non-controlling interest	**428**	294	**252**	218	**296**	196	**(56)**	27	**920**	735
Income taxes(1)	**170**	111	**97**	85	**122**	72	**(26)**	7	**363**	275
Non-controlling interest	**—**	3	**—**	—	**1**	6	**25**	23	**26**	32
Income before goodwill charges	**258**	180	**155**	133	**173**	118	**(55)**	(3)	**531**	428
Average assets	**26,244**	24,842	**14,690**	13,705	**36,643**	32,392	**(3,770)**	(1,552)	**73,807**	69,387

(1) *Net interest income was grossed up by $42 million ($37 million in 1999) and other income by $62 million to bring the tax-exempt income earned on certain securities in line with the income earned on other financial instruments. An equal amount was added to income taxes.*

(millions of dollars, unless otherwise indicated)

22. SEGMENT DISCLOSURES (cont.)

Results by geographic segment

Total revenues are attributed to countries where the client has its main place of business.

	2000	1999
Canada	3,057	2,350
United States	182	173
Other countries	65	59
Total revenues	3,304	2,582

23. ACQUISITIONS

First Marathon Inc.

On August 13, 1999, the Bank acquired 100% of the common shares of First Marathon Inc., a brokerage firm, for a consideration of 16,250,000 common shares valued at $301,275,000 as at the acquisition date and a cash amount of $352,686,438. This acquisition was recorded using the purchase method and is detailed as follows:

	1999
Tangible assets	
Cash resources	157
Securities	1,003
Loans	785
Other assets	240
	2,185
Less liabilities assumed	
Deposits	634
Other liabilities	1,159
	1,793
Net assets acquired by the Bank	392
Goodwill	262
Total investment cost	654
Issuance of common shares	301
Consideration in cash	353
Cash and cash equivalents acquired	157
Amount disbursed, net of cash	196

The earnings of First Marathon Inc. were included in the Consolidated Statement of Income as of the acquisition date. Goodwill is amortized using the straight-line method over a period of 20 years.

(millions of dollars, unless otherwise indicated)

23. ACQUISITIONS (cont.)

Acquisition of shares of National Bank Financial & Co. Inc. held by non-controlling interest

On September 30, 1999, the Bank, through National Bank Group Inc., a wholly-owned subsidiary, purchased all of the shares of National Bank Financial & Co. Inc. (formerly "Lévesque Beaubien and Company Inc."), the parent company of National Bank Financial Inc. (formerly "Lévesque Beaubien Geoffrion Inc.") not already held by the Bank for an aggregate consideration of $80 million, payable by the issuance of preferred shares of the subsidiary or a combination of cash and preferred shares of the subsidiary. As a result, National Bank Financial Inc. became an indirect wholly-owned subsidiary of the Bank.

	1999
Carrying value of non-controlling interest	62
Consideration:	
Issuance of preferred shares of National Bank Group Inc.	
Class A	13
Class B	30
	43
Cash	37
Price paid	80
Goodwill	18

This acquisition was recorded using the purchase method. Goodwill is amortized using the straight-line method over a period of 20 years.

24. SALE OF INTEREST IN A SUBSIDIARY

On May 31, 2000, the Bank, through National Bank Group Inc., a wholly-owned subsidiary, sold all the common shares of its wholly-owned subsidiary SIBN Inc., specializing in information technology, to COGNICASE INC. for a consideration of 8,491,008 common shares of COGNICASE INC. The Bank realized a gain of $105 million on the sale. In addition, the Bank purchased 800,000 common shares of COGNICASE INC., for a consideration of $20 million, bringing its interest in the company to approximately 35% of the common shares outstanding at the time of the transaction. The investment in COGNICASE INC. is recorded using the equity method.

(millions of dollars, unless otherwise indicated)

25. COMPARISON WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CANADA

The consolidated financial statements of the Bank are prepared in accordance with Canadian generally accepted accounting principles (GAAP), other than the accounting for the general allowance for credit risk which is in accordance with the accounting requirement of the Superintendent. The impact of the departure from Canadian GAAP is described below.

Consolidated Balance Sheet

The following table shows the increases (decreases) in the Consolidated Balance Sheet items resulting from the application of the Guidance provided by the Superintendent.

Description	*Note*	2000	1999
Loans	*a*	**(300)**	(300)
Other assets	*a*	**117**	117
Shareholders' equity	*a*	**(183)**	(183)

a) In 1998, the Bank increased its general allowance for credit risk. In accordance with the Guidance provided by the Superintendent, this one-time adjustment was applied to retained earnings. The adjustment does not comply with Canadian GAAP. However, had the Bank not departed from Canadian GAAP to conform to the Guidance provided by the Superintendent, loans would have increased by $300 million, deferred income taxes included in "Other assets" would have declined by $117 million and retained earnings would have risen by $183 million.

Consolidated Statement of Income

There was no impact on the Consolidated Statement of Income as reported, compared with Canadian GAAP.

Consolidated Statement of Changes in Shareholders' Equity

Except for the impact on shareholders' equity of $183 million, there was no impact on the Consolidated Statement of Changes in Shareholders' Equity as reported, compared with Canadian GAAP.

Consolidated Statement of Cash Flows

There was no impact on the Consolidated Statement of Cash Flows as reported, compared with Canadian GAAP.

Financial Ratios

This adjustment reduced the book value of common shares as at October 31, 2000 by $0.96 and increased the return on common shareholders' equity by 0.84%.

26. COMPARISON WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES

The consolidated financial statements of the Bank are prepared in accordance with Canadian generally accepted accounting principles (GAAP), other than the accounting for the general allowance for credit risk which is in accordance with the accounting requirement of the Superintendent. In the Bank's case, Canadian GAAP is, in all material respects, in accordance with U.S. GAAP, except as presented below.

Consolidated Balance Sheet

The following table shows the increases (decreases) in the Consolidated Balance Sheet items resulting from the application of U.S. GAAP.

	Note	2000	1999
Investment account securities	*a*	**53**	(10)
Loans	*c,g*	**1,249**	300
Premises and equipment	*e*	**96**	—
Other assets	*a,b,c,d,f*	**(85)**	(21)
Deposits	*e,g*	**1,045**	—
Other liabilities	*b*	**101**	174
Shareholders' equity	*a,b,c,d,f*	**167**	95

(millions of dollars, unless otherwise indicated)

26. COMPARISON WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES (cont.)

Consolidated Statement of Income

The following table shows the increases (decreases) in the Consolidated Statement of Income items resulting from the application of U.S. GAAP.

	Note	**2000**	1999
Reported net income		**509**	417
Post-retirement benefits	*b*	**(25)**	(5)
Pension expense	*d*	**74**	(6)
Amortization of goodwill	*f*	**(1)**	—
Income tax effect on above items		**(20)**	4
Net income per U.S. GAAP		**537**	410
Net income per common share – basic – U.S. GAAP		**$2.69**	$2.20
Net income per common share – fully diluted – U.S. GAAP		**$2.65**	$2.17

a) Under Canadian GAAP, securities held by the Bank should be classified as trading account securities if they are held for resale in the near term and as investment account securities in other cases. Investment account securities are recorded at their unamortized cost while trading account securities are reported at their fair value. According to U.S. Statement of Financial Accounting Standards (SFAS) No. 115, investment account securities would be separated into two categories: securities held to maturity and securities available for sale. Securities held to maturity include those that the Bank has the positive intent and ability to hold to maturity. These securities are recorded at their unamortized cost. Securities available for sale include those that are not held to maturity and trading account securities. They are reported at their fair value, with unrealized gains and losses excluded from income and reported in a separate component of shareholders' equity.

Had the Bank reported its investment account securities as at October 31, 2000 in accordance with U.S. GAAP, the value of the investment account securities would have increased by $53 million (decreased by $10 million in 1999), deferred income tax assets would have decreased by $21 million (increased by $4 million in 1999) and shareholders' equity would have increased by $32 million (decreased by $6 million in 1999).

Moreover, the change in unrealized gains and losses on securities available for sale, net of income taxes, would be recorded as consolidated comprehensive income.

b) Under Canadian GAAP, post-retirement benefits other than pensions could either be charged to income as they are incurred or they can be provided for on an accrual basis. The Bank charges to income all post-retirement benefits other than pension costs as they are incurred. According to SFAS No. 106, the cost of post-retirement benefits other than pensions is recognized in income on an accrual basis, based on actuarial assumptions. Had the Bank adopted this standard, income before income taxes would have decreased by $25 million ($5 million in 1999), income taxes would have decreased by $9 million ($2 million in 1999), deferred income tax assets would have increased by $39 million ($30 million in 1999), other liabilities would have increased by $101 million ($76 million in 1999) and shareholders' equity would have decreased by $62 million ($46 million in 1999).

c) The Bank increased its general allowance for credit risk in 1998 by $300 million. In accordance with the Guidance provided by the Superintendent, this one-time adjustment was applied to retained earnings. The adjustment does not comply with U.S. GAAP. Had the Bank adopted U.S. GAAP, loans would have increased by $300 million, deferred income tax assets included in "Other assets" would have decreased by $117 million and retained earnings would have risen by $183 million.

d) The method to value pension fund assets and the present value rates used differ between U.S. and Canadian GAAP when calculating pension cost and pension obligations. Had the Bank accounted for the costs and obligations of the main pension plans following U.S. GAAP, income before income taxes would have increased by $74 million (decreased by $6 million in 1999), income taxes would have increased by $29 million (decreased by $2 million in 1999), deferred income tax assets would have increased by $9 million (decreased by $38 million in 1999), the other component of "Other assets" would have decreased by $24 million (decreased by $98 million in 1999) and shareholders' equity would have decreased by $15 million (decreased by $60 million in 1999).

(millions of dollars, unless otherwise indicated)

26. COMPARISON WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES (cont.)

e) Under Canadian GAAP, the leases related to the head office building were accounted for as a sales-type lease followed by an operating lease as a lessee. Under U.S. GAAP (SFAS No. 98), to be accounted for as a sales-type lease, title must be transferred by the end of the lease term; otherwise, the leases must be accounted for as operating leases. Had the Bank adopted this standard, premises and equipment would have increased by $96 million and deposits would have increased by $96 million.

f) Under Canadian GAAP, the value of the shares issued by the Bank in order to acquire First Marathon Inc. was based on the market price of the shares over a reasonable period of time before and after the acquisition date. According to U.S. GAAP, the value of shares would have been based on the market price of the shares over a reasonable period of time before and after the date the terms of the acquisition were agreed to and announced. Had the Bank adopted U.S. GAAP, goodwill and shareholders' equity would have increased by $23 million ($24 million in 1999), taking into account the amortization of $1 million in fiscal 2000.

g) During the year, the Bank securitized certain non-guaranteed mortgages through Vision Trust. Under Canadian GAAP, the securitization resulted in a disposal of the loans. Under U.S. GAAP (SFAS No. 125), the securitization through Vision Trust would not have been accounted for as a disposal, and the loans would have remained on the Consolidated Balance Sheet of the Bank. Had this securitization been accounted for in accordance with U.S. GAAP, loans would have increased by $949 million and deposits would have increased by the same amount.

h) Consolidated comprehensive income

	2000	1999
Net income per U.S. GAAP	537	410
Change in unrealized gains and losses on securities available for sale, net of income taxes	38	(35)
Unrealized foreign exchange gains (losses), net of income taxes	4	23
Consolidated comprehensive income	579	398

i) There is no material difference in the Consolidated Statement of Cash Flows as reported, compared with U.S. GAAP.

Recent accounting standards not yet adopted

SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, is in effect for the Bank's fiscal year beginning November 1, 2000. SFAS No. 133 establishes new accounting and reporting standards for derivative financial instruments and for hedging activities. Under SFAS No. 133, the Bank is required to measure all derivatives at fair value and to recognize them in the balance sheet as an asset or liability, depending on the Bank's rights or obligations under the applicable derivative contract. Changes in the fair value of derivatives will be recorded each quarter in net income or other components of consolidated comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. The ineffective portion of all hedges will be recognized in net income. If a derivative does not qualify in a hedging relationship, the derivative is recorded at fair value and changes in its fair value will be reported in net income. Under the current accounting policy for derivatives, only derivatives used in sales and trading activities are recorded on the balance sheet at fair value.

On adoption of these new accounting standards, the Bank will record transition adjustments recognizing after-tax gains of $8 million in net income and $24 million in other components of consolidated comprehensive income. The adoption will also increase assets by $187 million and liabilities by $155 million as a result of recording all derivative instruments at fair value and recording a basic adjustment for all fair value hedged items on the balance sheet.

27. RECENT ACCOUNTING STANDARDS NOT YET ADOPTED

The Canadian Institute of Chartered Accountants issued new standards that change the accounting for pension and other employee future benefits (Handbook Section 3461). Effective for fiscal years beginning on or after January 1, 2000, companies will be required to accrue the costs of post-retirement benefits other than pensions over the working lives of employees in a manner similar to pension costs. Under current practice, these costs are charged to income as they are paid. These new standards also require a change in the present value rate used to value obligations and current service costs from an estimated long-term rate to a market-based interest rate. Adopting these new recommendations should result in a reduction of $76 million in the Bank's retained earnings, net of income taxes. In addition, the Bank's pension expense (before taxes) and the expense for post-retirement benefits for 2001 are expected to be approximately $11 million and $13 million respectively, compared to $4 million and $2.7 million for 2000.

The Canadian Institute of Chartered Accountants also issued new standards that change the accounting for income taxes (Handbook Section 3465). Effective for fiscal years beginning on or after January 1, 2000, the existing deferral method, which focuses on the income statement, will be replaced with the asset/liability method of tax allocation, which focuses on the balance sheet. When these new recommendations are adopted, future income taxes will represent temporary differences between the tax basis of assets and liabilities and their carrying values for accounting purposes. This method requires that all future income tax assets and liabilities be re-evaluated at the tax rate that is expected to apply when the temporary differences reverse. Adopting this change of accounting policy is not expected to have a material impact on the consolidated financial statements of the Bank.

Statistical Review

As at October 31	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Balance sheet data										
(millions of dollars)										
Cash resources	**$ 5,655**	$ 3,561	$ 4,852	$ 4,476	$ 3,528	$ 5,174	$ 3,765	$ 3,204	$ 3,693	$ 1,883
Securities	**16,835**	16,932	15,439	10,010	8,414	7,285	6,071	5,985	4,273	3,899
Loans	**46,739**	43,891	45,507	47,259	37,935	33,795	32,226	30,692	30,003	28,360
Customers' liability under acceptances	**3,640**	2,962	2,658	2,273	1,725	1,293	1,255	1,081	940	1,335
Premises and equipment and other assets	**2,958**	2,455	2,207	2,217	1,532	1,366	1,457	1,772	1,126	962
Total assets	**$75,827**	$69,801	$70,663	$66,235	$53,134	$48,913	$44,774	$42,734	$40,035	$36,439
Deposits	**$50,473**	$49,984	$48,026	$43,270	$40,125	$40,424	$36,850	$35,113	$33,433	$29,987
Other liabilities	**20,165**	15,481	18,976	19,136	9,494	4,895	4,253	4,476	3,645	3,451
Long-term debt										
Floating-capital notes	**—**	—	—	—	—	106	113	120	—	—
Subordinated debentures	**1,361**	1,035	966	1,069	1,016	1,177	1,241	1,037	969	806
Liabilities of subsidiaries	**—**	—	—	—	—	—	—	17	234	408
Capital stock										
Preferred shares	**492**	317	317	376	376	376	532	426	468	385
Common shares	**1,653**	1,641	1,327	1,309	1,268	1,234	1,207	1,083	906	905
Retained earnings	**1,683**	1,343	1,051	1,075	855	701	578	462	380	497
Total liabilities and shareholders' equity	**$75,827**	$69,801	$70,663	$66,235	$53,134	$48,913	$44,774	$42,734	$40,035	$36,439
Average assets	**$73,807**	$69,387	$65,873	$55,685	$49,239	$47,582	$43,160	$39,657	$38,908	$36,740
Average capital funds[1]	**4,660**	3,512	3,886	3,744	3,511	3,620	3,230	2,871	2,723	2,593
Income statement data										
(millions of dollars)										
Net interest income	**$ 1,292**	$ 1,282	$ 1,307	$ 1,319	$ 1,136	$ 1,170	$ 1,081	$ 996	$ 1,012	$ 972
Other income	**1,908**	1,263	1,142	1,056	970	712	719	635	541	472
Total revenues	**$ 3,200**	$ 2,545	$ 2,449	$ 2,375	$ 2,106	$ 1,882	$ 1,800	$ 1,631	$ 1,553	$ 1,444
Provision for credit losses	**200**	185	193	290	235	255	275	325	570	270
Operating expenses	**2,184**	1,662	1,577	1,478	1,402	1,219	1,158	1,036	1,011	914
Income taxes	**259**	238	256	238	130	146	131	81	(41)	64
Non-controlling interest	**26**	32	31	16	10	7	9	8	7	5
Income before goodwill charges	**531**	428	392	353	329	255	227	181	6	191
Goodwill charges	**22**	11	76	11	11	10	10	6	5	5
Net income	**$ 509**	$ 417	$ 316	$ 342	$ 318	$ 245	$ 217	$ 175	$ 1	$ 186

Statistical Review

	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Common stock data										
Number of common shares at end of year (thousands)	**189,474**	188,729	171,616	170,461	167,151	163,963	160,976	148,474	127,152	127,031
Number of common shareholders of record	**30,795**	32,048	32,902	34,433	36,549	39,053	41,974	46,121	49,200	56,901
Income (loss) per share before goodwill charges										
– Basic	**$ 2.66**	$ 2.30	$ 2.13	$ 1.93	$ 1.82	$ 1.32	$ 1.18	$ 1.05	$(0.25)	$ 1.24
– Fully diluted	**$ 2.64**	$ 2.27	$ 2.11	$ 1.91	$ 1.81	$ 1.31	$ 1.16	$ 1.04	$(0.25)	$ 1.23
Net income (loss) per share										
– Basic	**$ 2.54**	$ 2.24	$ 1.69	$ 1.86	$ 1.76	$ 1.26	$ 1.12	$ 1.01	$(0.29)	$ 1.20
– Fully diluted	**$ 2.52**	$ 2.21	$ 1.67	$ 1.84	$ 1.74	$ 1.24	$ 1.10	$ 1.00	$(0.29)	$ 1.19
Dividends per share	**$ 0.75**	$ 0.70	$ 0.66	$0.575	$ 0.49	$ 0.40	$ 0.40	$ 0.40	$ 0.70	$ 0.80
Stock trading range										
– High	**$ 25.25**	$26.20	$31.25	$20.30	$13.90	$11.88	$11.63	$10.75	$12.75	$11.38
– Low	**$ 16.40**	$17.15	$20.10	$13.20	$10.38	$ 8.63	$ 8.25	$ 7.25	$ 7.38	$ 7.00
– Close	**$ 24.95**	$17.90	$23.05	$20.15	$13.00	$11.00	$ 9.38	$10.50	$ 8.13	$11.13
Book value per share	**$ 17.60**	$15.81	$13.86	$13.99	$12.70	$11.88	$11.09	$10.41	$10.11	$11.03
Financial ratios										
Return on common shareholders' equity before goodwill charges	**16.0%**	15.5%	14.6%	14.5%	15.1%	11.5%	11.1%	10.3%	(2.2)%	11.4%
Return on average assets	**0.69%**	0.60%	0.58%	0.62%	0.64%	0.51%	0.50%	0.44%	—%	0.51%
Return on average capital funds	**12.4%**	13.2%	9.3%	10.5%	10.6%	8.3%	7.9%	(3)7.3%	1.5%	8.7%
Capital ratios (BIS)										
– Tier 1	**8.7%**	7.7%	7.7%	8.1%	6.9%	6.8%	6.9%	(3)6.2%	5.0%	5.2%
– Total	**11.4%**	(5)11.0%	10.7%	11.3%	(2)10.2%	10.4%	11.1%	(3)9.6%	8.7%	8.8%
Other information										
Impaired loans, net (millions of dollars)	**$ 44**	$ 43	$ 47	$ 297	$ 406	$ 511	$ 688	$ 904	$1,097	$ 733
Number of Bank employees (full-time equivalent)(4)										
– In Canada	**11,050**	11,744	11,641	11,245	11,022	10,249	10,423	11,822	11,629	12,275
– Outside Canada	**407**	431	400	406	380	371	323	327	333	369
– National Bank Financial & Co. Inc.	**2,419**	2,489	1,895	1,676	1,425	1,578	1,481	1,398	1,339	1,293
Number of branches in Canada	**586**	649	646	641	632	629	641	650	652	662
Number of banking machines	**802**	761	744	738	712	624	551	496	482	454

(1) *Average capital funds include common shareholders' equity, redeemable preferred shares and subordinated debentures.*
(2) *Taking into account the issuance of $150 million of subordinated debentures on November 1, 1996.*
(3) *Taking into account the redemption of $100 million of subordinated debentures through the issuance of common shares as at November 1, 1993.*
(4) *The basis for determining full-time equivalence was changed in 1996.*
(5) *Taking into account the issuance of US $250 million of subordinated debentures on November 2, 1999.*

Subsidiaries and Affiliated Corporation

As at October 31, 2000

Name	Principal office address	Percentage of voting and participating shares	Investment at cost (millions of dollars)
Subsidiaries			
Natcan Trust Company	Montreal, Canada	100%	55
General Trust of Canada	Montreal, Canada	100%	155
National Bank Life Insurance Company	Montreal, Canada	100%	10
AssurNat Management Inc.	Montreal, Canada	90%	11
National Bank Financial Services Inc.	Montreal, Canada	100%	1
National Bank Financial Services (Investments) Inc.	Montreal, Canada	100%	—
National Bank Group Inc.	Montreal, Canada	100%	144
– National Bank Financial & Co. Inc.	Montreal, Canada	100%	181
– NB Capital Corporation	New York, United States	100%	279
National Bank Discount Brokerage Inc.	Montreal, Canada	100%	1
National Bank Securities Inc.	Montreal, Canada	100%	—
NBC Clearing Services Incorporated	Montreal, Canada	100%	—
Natcan Investment Management Inc.	Montreal, Canada	76%	8
National Bank Financial Planning Inc.	Montreal, Canada	100%	—
National Bank Realty Inc.	Montreal, Canada	100%	6
Innocap Investment Management Inc.	Montreal, Canada	100%	1
FMI Acquisition Inc.	Montreal, Canada	100%	132
FMI Acquisition Holding Inc.	Montreal, Canada	100%	25
Alter Moneta Corporation	Longueuil, Canada	73%	30
NBC Holdings USA, Inc.	New York, United States	100%	83
– National Canada Finance Corp.	New York, United States	100%	—
– National Canada Business Corp.	New York, United States	100%	—
– National Canada Corporation	New York, United States	100%	—
– National Canada Export Corporation	New York, United States	100%	—
NB Finance Ltd.	Hamilton, Bermuda	100%	201
NatBC Holding Corporation	Florida, United States	100%	21
– Natbank, National Association	Florida, United States	100%	—
Natcan Holdings International Limited	Nassau, Bahamas	100%	34
– National Bank of Canada (International) Limited	Nassau, Bahamas	100%	—
Natcan Finance (Asia) Limited	Hong Kong, China	100%	2
National Bank of Canada (Asia) Ltd.	Singapore, Singapore	100%	3
Natcan Insurance Company Limited	Christ Church, Barbados	100%	1

Affiliated Corporation

Name	Principal office address	Percentage of voting and participating shares	Investment at book value (millions of dollars)
COGNICASE INC.	Montreal, Canada	35%	188

We carefully position ourselves on domestic and international markets so that we can accompany our clients wherever their business takes them.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Pierre Beaudoin
President
Business Aircraft
Bombardier Aerospace
Île-des-Soeurs, Verdun, Quebec

André Bérard
Chairman of the Board and
Chief Executive Officer
National Bank of Canada
Île-des-Soeurs, Verdun, Quebec

Lawrence S. Bloomberg
Special Advisor
National Bank Financial Inc.
Toronto, Ontario

Pierre Bourgie
President and
Chief Executive Officer
Société Financière Bourgie Inc.
Outremont, Quebec

Gérard Coulombe
Senior Partner
Desjardins Ducharme Stein Monast
Sainte-Marthe, Quebec

François J. Coutu
President and
Chief Operating Officer
The Jean Coutu Group (PJC) Inc.
Outremont, Quebec

Shirley A. Dawe
President
Shirley Dawe Associates Inc.
Toronto, Ontario

Nicole Diamond-Gélinas
Vice-President and
General Manager
Aspasie Inc.
Saint-Barnabé-Nord, Quebec

Jean Douville
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Chief Executive Officer
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Île-des-Soeurs, Verdun, Quebec

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Chairman of the Board, President and
Chief Executive Officer
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Métro Inc.
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Chief Executive Officer
Greenfleet Ltd.
Burlington, Ontario

Suzanne Leclair
President,
Chief Executive Officer and
Chairwoman of the Board
Transit Truck Bodies Inc.
Laval, Quebec

Bernard Lemaire
Chairman of the Board
Cascades Inc.
Kingsey Falls, Quebec

Léonce Montambault
Corporate Director
Sillery, Quebec

J.-Robert Ouimet
President and
Chief Executive Officer
Ouimet-Cordon Bleu Inc.
Montreal, Quebec

Robert Parizeau
Chairman of the Board
AON Parizeau Inc.
Montreal, Quebec

E.A. (Dee) Parkinson-Marcoux
President and Chief Executive Officer
Ensyn Energy
Canmore, Alberta

Michel Perron
Chairman of the Board and
Chief Executive Officer
Somiper Inc.
Westmount, Quebec

Réal Raymond
President, Personal and
Commercial Bank
National Bank of Canada
Île-des-Soeurs, Verdun, Quebec

Jean Turmel
President, Financial Markets, Treasury
and Investment Bank
National Bank of Canada
Outremont, Quebec

Corporate Governance Practices of the Bank

The Bank believes that it is both essential and in the general interest of any responsible corporation to adopt corporate governance standards and practices, and to implement an ongoing process for the constant improvement of these practices.

The general principles of corporate governance and the operating rules the Bank abides by include, in particular, Board independence, the accountability, competence, effectiveness and commitment of Board members, cooperation between officers and directors, and the Bank's communications with its shareholders and clients. From this perspective, the Board of Directors, assisted by the Conduct Review and Corporate Governance Committee, set itself the goal of selecting and implementing a large number of corporate governance measures consistent with the Bank's vision, values and business objectives. These measures must also take into consideration organizational effectiveness, reflect regulatory requirements and meet shareholders' expectations.

Therefore, in order to achieve the objectives set out above, the Board of Directors assigned to the Conduct Review and Corporate Governance Committee the mandate of providing the Bank with sound corporate governance standards and practices and developing new practices for the Bank in accordance with the guidelines of The Toronto Stock Exchange. The Bank's principles of corporate governance and its achievements in this area are presented in the following paragraphs, grouped together under seven main themes.

Taking into account the activities and studies carried out as part of its mandate in fiscal 1999-2000, the Conduct Review and Corporate Governance Committee considers that the Bank fully meets all its obligations regarding corporate governance, and it is satisfied with the follow-up done by the Board of Directors with respect to its recommendations.

Role and mandate of the Board of Directors

The Board of Directors oversees the management of the business and affairs of the Bank. Its role is essentially to protect the Bank's assets and to ensure its effectiveness, profitability, durability and development. The Board, either directly or through its various committees, monitors and supports the Bank's management in achieving the performance objectives established in the strategic plan.

The main responsibilities of the Board of Directors under regulatory obligations and its mandate are:

- Description of the Bank's mission, setting of its objectives and approval of effective strategies to ensure their realization
- Changes made from time to time to management organizational structures
- Succession planning for the Bank's senior management
- The communication policy of the Bank
- Policies on the business and financial practices of the Bank regarding risk and internal controls as well as the related annual compliance reports
- Credit risk management policies, including the criteria, latitudes, limits and responsibilities inherent in credit decisions
- Approval of the annual budget of the Bank
- Periodic study of the results obtained and their comparison with target objectives
- Compensation policies for employees, officers and directors of the Bank

In fiscal 1999-2000, the Board of Directors, with the support of its various committees, paid special attention to the following:

- The retirement age of directors and the size of the Board of Directors
- Review of the policy on market risk management
- Adoption of a new code of professional conduct for employees, officers and directors
- Modification of the Bank's internal structure and appointment of senior officers
- Compliance program
- *Bank Act* reform
- The impact of technology

The expectations of the Board of Directors with regard to the officers are expressed in general objectives in line with the strategic plan approved by the Board of Directors. These objectives represent one of the criteria used to evaluate the officers. This year, the Human Resources Committee reflected on the roles and powers of the Bank's most senior executives, whose functions and responsibilities were updated as a result.

Composition of the Board of Directors and its committees

In general, the Bank places great importance on a high level of competence for its directors. Nominees are selected for their qualities and abilities, their experience, expertise, integrity, honesty, business judgement and active commitment as well as their influence in a particular sector of activity; the nominees' place of residence and knowledge of regional and national issues are also taken into consideration. Lastly, given the new requirements of the domestic and global economy, the Bank intends in the future to recruit new nominees, men and women, who have experience in growth sectors such as advanced technology and communications, biotechnology, health and recreation.

The composition of the Board committees is based both on statutory requirements and the specific features of their mandate. The Audit Committee and the Conduct Review and Corporate Governance Committee therefore have a majority of directors who are "unrelated"[1] as well as a majority of directors who are not "affiliated with the Bank."[2] No officer is a member of either of these committees.

Further to a recommendation of the Conduct Review and Corporate Governance Committee, the Board of Directors weighed the merits of reducing the number of directors on the Board of Directors, resulting in the adoption of a new by-law required to be approved by the shareholders regarding the minimum and maximum number of directors that can be appointed to the Board of Directors.

By 2004, the retirement age of directors will gradually be lowered from 70 to 65. After that date, no one who is 65 years of age will be able to be elected or appointed a director of the Bank at an annual meeting, barring exceptional circumstances and with the approval of the Conduct Review and Corporate Governance Committee.

(1) *As defined in the guidelines of The Toronto Stock Exchange, "an unrelated director is a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding."*

(2) *Within the meaning of banking regulations, a director affiliated with the Bank is a director who is an officer or an employee of the Bank or of a corporation controlled by the Bank or a person who, directly or through companies with whom such person is affiliated, maintains significant relationships with the Bank covering a range of business or shareholding situations, as well as the spouse of such person.*

The term of office of a director may not exceed 15 successive renewals, subject to review after 10 years by the Conduct Review and Corporate Governance Committee.

The process of appointing the chairs of the Board committees was also studied by the Conduct Review and Corporate Governance Committee. Following the recommendation of this committee, the Board of Directors decided that in order to be appointed chair of a committee, for a maximum period of four years, the person approached to assume these duties would be required to have previously sat on that committee for at least two years.

Commitment of directors

As the financial sector is vast and complex, it is essential for directors to take part in a continuous education process. This year, the Conduct Review and Corporate Governance Committee studied and implemented a new training program aimed at making directors better equipped to handle their responsibilities as members of the Board of Directors and at making them better acquainted with the key personnel of the Bank so that they could discuss with them the main challenges which the Bank must face.

In order to further align directors' interests with those of shareholders, the Bank requires members of the Board of Directors to hold not less than 2,000 shares. It is interesting to note that directors may elect to receive all or a portion of their compensation directly in the form of stock or convert it to deferred stock units (DSUs). The particulars of this new method of receiving compensation are set out in the Management Proxy Circular. Currently, five directors receive all or a portion of their compensation directly in the form of stock, and eight directors have joined the new DSU Plan.

Implementation of a new self-appraisal program has enabled the Board of Directors to assess more effectively its overall performance, to bring out the strong points of the Board of Directors and its committees, and also to take an objective look at the points that require additional work on the part of directors and of the Board of Directors in general. Following a survey compiled and analyzed by a firm of experts, members of the Conduct Review and Corporate Governance Committee studied the findings and made recommendations to the Board aimed at improving the effectiveness of the Board of Directors and its committees.

Independence of the Board of Directors

The Board of Directors assigned to the Conduct Review and Corporate Governance Committee the mandate of ensuring its independence. Outside directors hold meetings in the absence of directors who are members of management, and the meetings are chaired by the chair of the Conduct Review and Corporate Governance Committee.

During the fiscal year ended October 31, 2000, the Board of Directors held 14 meetings. On two occasions, members of the Board of Directors held a portion of these meetings in the absence of the officers of the Bank.

As at October 31, 2000, the Board of Directors was composed of 16 "unrelated" directors out of a total of 21, as defined in the guidelines of The Toronto Stock Exchange. As at the same date, 11 Bank directors were "affiliated with the Bank", as defined in banking regulations.

Directors, and more specifically the chairs of the committees of the Board of Directors, are regularly consulted in order to determine which items should receive priority in being referred to the Board of Directors and its committees for monitoring and review.

The Conduct Review and Corporate Governance Committee is also mandated to evaluate and approve any request by an outside director to retain the services of expert consultants at the Bank's expense.

It is the responsibility of the Conduct Review and Corporate Governance Committee to make recommendations to the Board regarding ethics and conflicts of interest. In this regard, it regularly reviews the procedures for disclosure of potential conflicts of interest.

No officer sits on the Audit Committee, the Human Resources Committee or the Conduct Review and Corporate Governance Committee.

The Conduct Review and Corporate Governance Committee considers that currently the role of Chairman of the Board and Chief Executive Officer must be assumed by the same person in view of the special context of the Bank, its corporate strategies and the significant contribution of the Chairman of the Board and Chief Executive Officer.

Interaction and cooperation

The Board of Directors and the Conduct Review and Corporate Governance Committee are of the opinion that the participation of the Chairman of the Board and Chief Executive Officer, the President, Personal and Commercial Bank, and the President, Financial Markets, Treasury and Investment Bank, in the deliberations of the Board of Directors has a material impact on the effectiveness of Board meetings.

The effective operation of the Board of Directors and its committees is based on the quality of information transmitted to the directors, on the identification and analysis of the strategic options and choices available, as well as on the quality of the solutions recommended. The officers and directors of the Bank cooperate and share relevant information, allowing them to make informed decisions in the best interest of the Bank, its shareholders and partners.

The chairs of the committees and the directors are called upon regularly to provide their suggestions and comments informally on various complex subjects of concern to directors and officers. These discussions are aimed in particular at preparing working papers to be used as a starting point for the more formal discussions of the Board of Directors and its committees.

Every two years, directors and officers participate in a strategic planning session where the major orientations of the Bank are discussed. An annual follow-up is made to allow directors to see changes in strategies and ensure that they are carried out.

Activity reports of the Chairman of the Board and Chief Executive Officer, the President, Personal and Commercial Bank, the President, Financial Markets, Treasury and Investment Bank, and the Senior Vice-President, Human Resources and Administration, are presented at each meeting of the Board of Directors, enabling directors to oversee the management of the business and affairs of the Bank.

Special presentations are made on a regular basis to members of the Board of Directors and some of its committees to make them better versed in technical, strategic and current topics of importance to the Bank. This year, the subjects discussed in particular were e-commerce, insurance and the bill on the reform of the financial services sector. Industry sector presentations were also made to members of the Credit Committee to make them more conversant with the needs and special features of certain business and industrial sectors, specifically the steel industry, retail trade and the agricultural, telecommunications, auto parts and energy sectors.

Communications

The quality of information distributed and the communications of the Bank with its clients and shareholders are matters regularly addressed by the Board of Directors and its committees.

The Bank maintains ongoing relations with its registered and non-registered shareholders through General Trust of Canada and other financial intermediaries and also by way of conference calls available to all shareholders through the website of the Bank. The Annual Meeting of Shareholders is also an opportunity for shareholders to express their concerns to management members and the Board of Directors. Shareholders may also communicate with the Bank at any time by contacting the Corporate Secretary's Office, the Investor Relations Department or General Trust of Canada, the Bank's Transfer Agent and Registrar.

Clients, shareholders and the general public may also communicate with the Bank through its website (www.nbc.ca), which for the most part contains descriptions of products and services as well as general information about the National Bank group. Moreover, financial information applicable to all investors is available on the Internet site in real time, notably quarterly reports and related conference calls.

More formal complaints may be filed with the Ombudsman of the Bank, who reports regularly to the Conduct Review and Corporate Governance Committee.

Role and mandates of the committees

CREDIT COMMITTEE

The Credit Committee approves loans, by borrower and by group of borrowers, which exceed the powers delegated to officers, in accordance with the Credit Risk Management Policy of the Bank. It approves any transaction between the Bank and related parties in accordance with the requirements of the *Bank Act* and makes recommendations thereon to the Board of Directors. This Committee ensures that non-performing loans are monitored and approves the provisions to be taken. Moreover, it receives and examines the quarterly reports of the Bank on loan losses and non-performing loans. Lastly, the Credit Committee forwards to the Board of Directors all recommendations it deems appropriate. During the past fiscal year, the Committee met 14 times.

MEMBERS[(1)]

Donald M. Green
Chair

André Bérard[(2)]
Ex-officio member

Réal Raymond[(2)]
Ex-officio member

Jean Turmel[(2)]
Ex-officio member

Pierre Bourgie

François J. Coutu

Paul Gobeil

J.-Robert Ouimet

Michel Perron

The other members of the Board of Directors are invited to attend meetings on a rotating basis.

AUDIT COMMITTEE

The Audit Committee examines all financial information documents, notably the Annual Information Form and press releases of a financial nature, as well as the quarterly and annual financial statements of the Bank and certain subsidiaries (including Natcan Trust Company), and recommends approval thereof to the Board of Directors. Accordingly, it monitors certain investments and transactions which could adversely affect the Bank's financial health. It also looks into changes in accounting principles and examines management's reports on disputes and other claims which could have a material impact on the financial position of the Bank. In addition, the Committee monitors the process by which the chief internal auditor is appointed or removed and examines, on an annual basis, the mandate, nature and scope of the Bank's internal and external audit work. It makes recommendations concerning the independence, appointment and remuneration of the external auditors of the Bank. The Audit Committee is also responsible for checking the implementation and effectiveness of the Bank's internal control policies and procedures, making recommendations and monitoring the situation, if applicable. It examines the annual self-assessment reports of the Bank under the standards of the Canada Deposit Insurance Corporation and reviews the policies concerning the business and financial practices adopted by the Bank with respect to risk management and internal controls. Moreover, it ensures that internal audit personnel cooperate with the external auditors and sees that the necessary measures are taken to follow up on the recommendations of the internal and external auditors. The Committee meets with the internal and external auditors and with representatives of the Office of the Superintendent of Financial Institutions and takes their recommendations into consideration in its report to the Board of Directors. During the past fiscal year, the Committee met four times.

MEMBERS[(3,4)]

Jean Douville
Chair

Nicole Diamond-Gélinas

Paul Gobeil

Suzanne Leclair

Léonce Montambault

(1) *Raymond Royer was Chair of this Committee until his resignation on May 9, 2000.*
(2) *These members attend Committee meetings generally on a rotating basis.*
(3) *Officers and employees of the Bank may not be members of this Committee.*
(4) *Claude F. Savoie was a member of this Committee until his death on October 5, 2000.*

CONDUCT REVIEW AND CORPORATE GOVERNANCE COMMITTEE

The Conduct Review and Corporate Governance Committee carries out a number of functions for the Bank and its subsidiary Natcan Trust Company. It makes recommendations to the Board of Directors concerning the adoption of the Bank's orientations, policies and practices with respect to corporate governance and ensures that they are applied. It ensures that the disclosure obligations imposed by stock exchanges are respected. It evaluates the effectiveness of the Board of Directors, establishes the criteria for selecting new directors and submits its recommendations thereon to the Board. This Committee is also responsible for providing training to directors and making appropriate recommendations concerning the compensation and allowances for the directors, especially with regard to liability insurance.

The Conduct Review and Corporate Governance Committee assumes the functions of a conduct review committee within the meaning of the *Bank Act*. In that regard, it ensures that policies and practices concerning transactions with related parties of the Bank are established and respected and reports thereon to the Office of the Superintendent of Financial Institutions. It monitors the application of procedures established to resolve conflicts of interest, matters pertaining to professional ethics, the dissemination of information and the handling of customer complaints. During the past fiscal year, the Committee met five times.

MEMBERS[3]

Paul Gobeil
Chair

Pierre Bourgie

Shirley A. Dawe

Bernard Lemaire

Léonce Montambault

Robert Parizeau

HUMAN RESOURCES COMMITTEE

The Human Resources Committee acts as a human resources committee for the Bank and its subsidiary Natcan Trust Company. It is the responsibility of the Human Resources Committee of the Bank to recommend that the Board of Directors adopt policies in matters of total compensation for employees and management, namely, the Chairman, the Presidents, the Executive Vice-Presidents, the Senior Vice-Presidents and the Vice-Presidents of the Bank (the "Officers"). It appraises the performance of Officers and annually reviews their total compensation based on the objectives assigned to them and the results achieved. It also analyzes their compensation conditions and submits timely recommendations to the Board of Directors in that regard. Moreover, the Committee examines and comments on the Bank's executive and management succession planning as well as the profiles of those who are likely to be promoted. Lastly, it oversees the management of the Bank's pension plans and pool fund and assesses the performance of the fund's manager. During the past fiscal year, the Committee met seven times.

MEMBERS[3]

Robert Parizeau
Chair

Gérard Coulombe

François J. Coutu

Shirley A. Dawe

Marcel Dutil

Léonce Montambault

BUSINESS DEVELOPMENT COMMITTEES

The mandate of the 20 business development committees is to help the Bank obtain a better understanding of the needs and development potential of each region. The members of these committees advise the Bank's regional vice-presidents on the opportunities and specific needs in their respective regions. Moreover, they contribute to the Bank's visibility.

A senior Bank officer is assigned to liaise with each business development committee so as to facilitate the exchange of information. Each year, one of the business development committees is honoured for its special contribution to business development. At the 2000 Annual Meeting, the South Shore Business Development Committee took top honours for its drive and achievements.

Officers

EXECUTIVE OFFICE

André Bérard
Chairman of the Board and
Chief Executive Officer

Réal Raymond
President, Personal and
Commercial Bank

Jean Turmel
President, Financial Markets,
Treasury and Investment Bank
Chairman of the Board
National Bank Financial Inc.

SENIOR VICE-PRESIDENTS

Gilles Bissonnette
Operations Support

Patricia Curadeau-Grou
Risk Management and
Chair of the Credit Committee

Pierre Desbiens
Insurance and Trust Services
President and
Chief Executive Officer
National Bank Life Insurance and
General Trust of Canada

Gisèle Desrochers
Human Resources and
Administration

Frank De Vries
United States

Jacques Grandmaison
Card Services

Jean Houde
Personal Banking

Douglas E. Kemp-Welch
Ontario and Western Canada

Michel Labonté
Finance and Control

Mario Lecaldare
Executive Vice-President
Corporate Financing
National Bank Financial Inc.

Tony P. Meti
Commercial Banking, North America

Renaud Nadeau
Retail Product and Small Business
Management

Enrico Pallotta
Corporate Banking, Canada

Denis Pellerin
Financial Markets and
Treasury Operations

Jean-Charles Petitclerc
Information Technology

Michel Tremblay
Wealth Management and President,
Natcan Investment Management Inc.

Louis Vachon
Treasury and Financial Markets

VICE-CHAIRMAN OF THE BOARD

Pierre Brunet

OMBUDSMAN

Pierre Desroches
Ombudsman and
Executive Vice-President

PRESIDENTS OF SUBSIDIARIES

G.F. Kym Anthony
President and Chief Executive Officer
National Bank Financial Inc.

Yves G. Breton
President
National Bank Discount
Brokerage Inc.

Germain Carrière
President and
Chief Operating Officer
Individual Investor Services
National Bank Financial Inc.

VICE-PRESIDENTS

Dana Ades
Special Loans and Real Estate, Canada

Santo Alborino
Employee Relations

Jean-Luc Alimondo
Europe/Middle East/Africa

Richard Barriault
Taxation

Pierre Blais
Public Sector Banking

André Boileau
Chaudière/Appalaches and North Shore

Luc Bordeleau
Lower St. Lawrence/Gaspé

Michel Brouillette
Commercial Banking
Quebec City/Chaudière/Appalaches

Jean-Paul Caron
Corporate Affairs

Linda Caty
Corporate Secretary

Gilles Choquet
Montérégie

Jean Dagenais
Chief Accountant

France David
Audit

Philippe DesRosiers
Atlantic Canada

Yvan Desrosiers
Saguenay/Lac Saint-Jean/North Shore

Laura Dottori
Corporate Banking, Central Canada

Lévis Doucet
Montreal

Pierre Dubreuil
Syndication

Michel Faubert
Operations Support

Luc Fredette
Credit, Canada

Francine Gaudreault
Small Business Management

Michel Gendron
Commercial Banking
Montreal/Bank Tower

Rubina Havlin
Business Development, Card Services

Richard Hébert
Mauricie

Raymond H. Keroack
Network Support

Marc Knuepp
Controller

Albert Labelle
Personal Banking, Ontario, Outaouais and Western Canada

Pierrette Lacroix
Market Risk

Jean-Pierre Lambert
Montérégie

Jacques Latendresse
Nassau

Michelle Leduc
Eastern Townships

Réjean Lévesque
Commercial Banking
Laval/North Shore

Benoît Loranger
Central/Western Montreal

J. Archie Marshall
Commercial Banking, Ontario

Gilles Morin
Forest Products and Mines

Jean-Jacques Morin
Marketing

Jacques Naud
Abitibi/Témiscamingue

Martin Ouellet
Treasurer

Paul-André Paradis
Northern/Eastern Montreal

Jacques Piché
International Commercial Operations

Jacques A. Pinsonnault
Financial Markets

Gérard Proulx
Laval/North Shore

Roland Provost
Drummond/Bois-Francs

Nicole Rondou
Wealth Management Development

Lili J. Shain
Credit and Specialized Products

Vincent Sofia
Asia

John W. Swendsen
Western Canada

Marc Taillon
Quebec City Urban Community

Pierre Therrien
Private Banking, Quebec

Peter Thompson
Commercial Banking
Outaouais/Ontario East and North

Dominique Vachon
Chief Economist

Kathleen Zicat
Human Resources Development

Business Development Committee Members

ATLANTIC CANADA

Bernard Cyr *
President
Cyr Holding Inc.
Moncton, NB

Eugène Durette
President
Brunswick Shopping
Centre Ltd.
Edmundston, NB

Yvon Normandeau
Owner
Immeubles Karic Ltée
Caraquet, NB

Jean-Claude Savoie
President
Groupe Savoie Inc.
Saint-Quentin, NB

QUEBEC

Abitibi/Témiscamingue

Jacques Aubé
President
Gabriel Aubé Inc.
La Sarre

Frantz Boivin
Manager
CKVD & CHOI Rock Détente
Val d'Or

Robert Cloutier *
President and
Chief Executive Officer
Gestion Montemurro Ltée
Rouyn-Noranda

Claire Derome
President
Les Mines McWatters Inc.
Val d'Or

Claude Gagnon
President
Corporation Zodiaque Ltée
Ville-Marie

France Gagnon
General Manager
Précibois inc.
Barraute

Normand Langlois
Secretary and Treasurer
Blais & Langlois Inc.
Matagami

Guylaine Paquin
President and
Chief Executive Officer
Lesage Tremblay
Rouyn-Noranda

Jean-Guy Roberge
Regional Vice-President
Imprimerie Quebecor Lebonfon
Val d'Or

Chaudières/Appalaches

Sandra Blanchet
Gestion Blanchet Inc.
Saint-Romuald

Richard Duval
President
Les Lainages Victor Ltée
Saint-Victor

André Gosselin
Secretary and Treasurer
Groupe Macadam
Beauport

Paul-Émile Grenier *
President
Société Grenco Inc.
Thetford Mines

Pierre Létourneau
Executive Vice-President
Équipement Labrie Ltée
Saint-Nicolas

Simon-Pierre Paré
President and
Chief Executive Officer
Rousseau Métal Inc.
Saint-Jean-Port-Joli

Drummond/Bois-Francs

Guy Aubert
President and
Chief Executive Officer
Thiro Ltée
Victoriaville

Nicole Coderre
President
Location N.R.J. ltée
Drummondville

Alain Dumont
President
Fournitures funéraires
Victoriaville inc.
Victoriaville

Denis Forcier
Vice-President, Administration
Les Pétroles Therrien inc.
Drummondville

Fernand Lallier *
President and
Chief Executive Officer
Imprimerie d'Asbestos
(1980) Inc.
Asbestos

Claude Mayer
President
Camoguid Inc.
Saint-Théodore

Claude Pépin
Sales Representative
Warwick

Jean-Luc Vigneault
President and
Chief Executive Officer
Vexco Inc.
Plessisville

Eastern Townships

Gérald Bouchard
Co-owner
Service de l'Estrie
Sherbrooke

Gilles Fontaine *
Lawyer
Fontaine, Désy
Sherbrooke

Dany Lachance
Notary
Lagassé Lachance Beaupré
Poisson
Sherbrooke

Yvan Michel
Controller
Granit Appalaches
Lac-Drolet

Jean Pelchat
President
Marché Jean Pelchat Inc.
Magog

Yolande Vanier
City Councillor
City of Rock Forest
Rock Forest

Malcolm L. Wheeler
President
Herwood Inc.
Windsor

Lanaudière

Jean Clermont
Chartered Accountant
Saint-Jacques

Marcel Gauthier
President and
Chief Executive Officer
Centre de ski Mont-Garceau
Saint-Donat

Ginette Mailhot
Vice-President, Operations
Inovesco
Joliette

Paul Michaud *
President
Carrière St-Barthélémy
(1990) Ltée
Saint-Barthélémy

Elise Poulette
General Manager
Produits de Béton
Casaubon Inc.
Sainte-Élisabeth

Georges Saulnier
President
Les Industries Saulnier Inc.
Saint-Gabriel-de-Brandon

Laurentians

André Bolduc
Pharmacist
Pharmacie André Bolduc
Mont-Laurier

Denis David
President
Esthétique d'auto Sainte-
Agathe-des-Monts Inc.
Sainte-Agathe Sud

Anne Desjardins
Owner and Chef
Hôtel Restaurant l'Eau à la
Bouche
Sainte-Adèle

Suzanne Fortin
Lawyer and Partner
Prévost Auclair Fortin D'Aoust
Saint-Jérôme

Marie Pettinato
Administrative Assistant
Régie intermunicipale
Deux-Montagnes
Lachute

Richard Prévost
President and
Chief Executive Officer
Location Multiloc Inc.
Saint-Jovite

Chantal Rochette *
President
Au Coin du Jardin Inc.
Saint-Sauveur-des-Monts

Laval/North Shore

Pierre Belle
President
Groupe Litho Mille-Iles Ltée
Terrebonne

Denis F. Gauthier *
Lawyer
Gauthier, Paquette, Trudeau,
Avocats
Laval

Pierre Grand'Maison
President
Thermoplast Inc.
Laval

Marielle Hébert
President
Mar & Ber Inc.
Montreal

Edmond Lavallée
Chartered Accountant
Lavallée Hébert, C.A.
Saint-Eustache

Benoît Roy
General Manager
Intermat
Terrebonne

Lower St. Lawrence/Gaspé

Gilles Bérubé
President
Groupe Cédrico Inc.
Price

Georges Harrisson
Management Consultant
Les Habitations Mont-Carleton
1994 Inc.
Carleton

Claire Langlois
Notary and Legal Advisor
Amqui

André Racine
President
Les Entreprises Vagabond Inc.
Rimouski

Reine-Marie Roy *
Lawyer
Gendreau, Roy, Beaulieu &
Carrier
Rimouski

Renaud Samuel
President
Groupe RT
Rivière-au-Renard

Mauricie

Jean-Marc Dumont
President
Manutention M.D.T. Inc.
La Tuque

Louise Gamache *
Vice-President, Finance
Estampage J.P.L. Ltée
Sainte-Marthe-du-Cap-
de-la-Madeleine

Raymond Mailhot
President
B.S.G. Inc.
Cap-de-la-Madeleine

Gilles Mathon
Chartered Accountant
Trois-Rivières

Guy L. Trudeau
President and
Chief Executive Officer
Le Groupe Choisy Inc.
Louiseville

Montérégie Sud

Gilles Audette
Farm Producer
Saint-Clet

Jocelyn Demers
President
Atelier d'usinage Quenneville
Valleyfield

Maurice Gagné
Chartered Accountant
Beaulieu Gagné Chiasson
Châteauguay

Clément Leblanc
Notary and Legal Advisor
Châteauguay

Business Development Committee Members

Yves Loiselle *
President
Excavation Loiselle
& Frères Inc.
Saint-Timothée

André Meloche
Vice-President
Cojaly
Vaudreuil/Dorion

Guy Ste-Marie
President
Viau Ford (1990) Inc.
Saint-Rémi

Outaouais

André C. Beaulieu
President
Consultants en bâtiment
CABA Inc.
Hull

Geneviève Brown
Owner and Manager
Club de Golf Mont-Cascades
Cantley

Gilles Desjardins
President
Groupe Brigil Inc.
Gatineau

Jean-Guy Hubert
President
G. Hubert Auto Ltée
Maniwaki

Martin Lachapelle
Manager
Roger Lachapelle
Pontiac Buick G.M.
Hull

Maurice Marois *
President
Marois Électrique (1980) Ltée
Hull

José Rego
Owner
Marché Pombalense Inc.
Hull

Marcel Reny
Co-owner and Manager
Clinique 4 Tachereau
Aylmer

Carmen Rodrigue
General Manager
CJRC 1150 Radiomédia/
CKTF Énergie
Gatineau

Robert Roy
President
Le Groupe Sotramont
Gatineau

Richelieu/Yamaska

Gérard Bernard
President and
Chief Executive Officer
Les Placements Robert Bernard
Ltée
Saint-Paul-d'Abbotsford

Jean Cartier *
President
Emballages Jean Cartier Inc.
Saint-Césaire

Jacqueline Larochelle
Chambly

Jean-Pierre Robin
President
Gestion Valentine Inc.
Saint-Hyacinthe

Réjane Salvail
Sainte-Anne-de-Sorel

Jacques Sylvestre
Lawyer
Sylvestre & Associés, avocats
Saint-Hyacinthe

Saguenay/Lac Saint-Jean/ North Shore

Marcel Bouchard
Owner
Auberge des 21
La Baie

Ginette Levesque
Vice-President
Héli-Manicouagan Inc.
Baie-Comeau

Marc-André Lévesque
Co-President
Groupe Radio Antenne 6
Roberval

Jean-Marc Maltais
President and
Chief Executive Officer
Consomat
Alma

Marlène Ouellet *
Notary
Chicoutimi

Théogène Poirier
Regional Manager
Sani-Mobile-Onyx Industries
Sept-Iles

Laval Roy
Notary
Dolbeau-Mistassini

Alain Tremblay
President and
Chief Executive Officer
Servi-Portes (93) Enr.
Jonquière

South Shore

Serge Beauchemin
President
Entreprises 3-Soft Inc.
Brossard

Luc Lambert
General Manager
Groupe Lambert
Saint-Basile-le-Grand

Raymond Landry
President
Gestion Savoie Landry Inc.
Saint-Hubert

Jean Montpetit
Vice-President
Batteries Power (Iberville)
Ltée
Iberville

Claudette Pigeon
Certified General Accountant
Varennes

Carole St-Charles *
President
J.L. Freeman Inc.
Boucherville

Pierre Trahan
President
Cédarome Canada Inc.
Brossard

Farm Committee

Michel Desjardins
Farm Producer
Montebello

Jacynthe Gagnon
Farm Producer
Sainte-Agnès

Pierre Joyal
Farm Producer
Les Maïs Pierre Joyal Inc.
Saint-David

Jean-Marc Lacroix
President
J.M. Lacroix & Fils
Laval

Marie-Claire Lafrenière *
Farm Producer
Saint-Charles-de-Bellechasse

Serge Lefebvre
Farm Producer
Ferme St-Ours Inc.
Saint-Ours

Larry Ness
Farm Producer
Terrace Bank Ayrshires
Howick

High Technology Committee

François Aird
President
Cedrom-SNi
Outremont

Thomas Birch
President
Pyderion Contact
Technologies Inc.
Saint-Laurent

Robert Carrier
President
Safework Inc.
Montreal

Philippe Collard
President and
Chief Executive Officer
Virtual Prototypes Inc.
Montreal

Bernard Hamel *
President
GTI Capital
Montreal

Thomas G. Ivaskiv
President and
Chief Executive Officer
AD OPT Technologies Inc.
Montreal

André La Forge
Partner
KPMG
Montreal

ONTARIO

Central Ontario (Toronto)

J.R. Alexander
President
Algonquin Group of Companies
Huntsville

John K. Macdonald
President
Armak Resilient Floor Covering
Corporation
Mississauga

Marlene Oilgisser
Richmond Hill

Ted Pattenden
President
NRI Industries Inc.
Toronto

Leslie Slater
Chartered Accountant
Toronto

Claude Théberge *
Nepean

Eastern Ontario (Ottawa)

Pierre Bergeron
Publisher
Le Droit
Ottawa

Noël J. Berthiaume
Partner
Berthiaume, Perrier and Assoc.
Hawkesbury

John French
President
Dustbane Products Ltd.
Ottawa

Jacques Lamarche
Farm Producer
Lefaivre

Christine Lamothe-Moir
Managing Partner
Performance Development
Training
Nepean

Richard Laplante
President
Builder's Warehouse Inc.
Orléans

Andrew Wolff
President and Chief Operating
Officer
OZ New Media
Ottawa

Carole Workman *
Vice-Rector – Resources
University of Ottawa
Ottawa

Windsor/Essex

Fred Cowlin
President and Chief Executive
Officer
Unity Insurance Brokers
(Windsor) Ltd.
Windsor

Murray G. Cummings
President
TSC Stores Ltd.
London

John Furlan
President and
Chief Executive Officer
H.E. Vannatter Limited
Wallaceburg

John E. Omstead *
President
Family Tradition Foods Inc.
Wheatley

Karl Richter
President
Schukra of North America Ltd.
Windsor

Jeffrey M. Slopen
Partner
Wilson, Walker, Hochberg,
Slopen
Windsor

Michael George Solcz
President and
Chief Executive Officer
Valiant Machine & Tool Inc.
Windsor

Rochelle Tepperman
Vice-President
Tepperman Furniture Appliance
Electronic
Windsor

** Chair of the Committee*

Subsidiaries

CANADA

National Bank Group Inc.
600 de La Gauchetière West
Montreal, Quebec H3B 4L2

Treasury and Securities

National Bank Financial Inc.
1155 Metcalfe, 5th Floor
Montreal, Quebec H3B 4S9

NBC Clearing Services Incorporated
1010 de La Gauchetière West
17th Floor
Montreal, Quebec H3B 4J2

Natcan Investment
Management Inc.
1100 University
Montreal, Quebec H3B 2G7

Innocap Investment
Management Inc.
1100 University
Montreal, Quebec H3B 2G7

Export Financing

NatExport, a division of
Natcan Trust Company
600 de La Gauchetière West
Montreal, Quebec H3B 4L2

Sodex, a division of
National Bank of Canada
600 de La Gauchetière West
Montreal, Quebec H3B 4L2

Insurance

National Bank Life
Insurance Company
1100 University
Montreal, Quebec H3B 2G7

AssurNat Management Inc.
1100 University, 11th Floor
Montreal, Quebec H3B 2G7

Trust Services

General Trust of Canada
1100 University
Montreal, Quebec H3B 2G7

Natcan Trust Company
600 de La Gauchetière West
Montreal, Quebec H3B 4L2

Discount Brokerage and Group Savings

National Bank Securities Inc.
1100 University
Montreal, Quebec H3B 2G7

National Bank Discount
Brokerage Inc.
1100 University
Montreal, Quebec H3B 2G7

National Bank Financial Services
(Investments) Inc.
1100 University
Montreal, Quebec H3B 2G7

Financial Planning

National Bank Financial
Planning Inc.
600 de La Gauchetière West
Montreal, Quebec H3B 4L2

Lease Financing

Alter Moneta Corporation
101 Roland-Therrien
Suite 500
Longueuil, Quebec J4H 4B9

Real Estate

National Bank Realty Inc.
600 de La Gauchetière West
Montreal, Quebec H3B 4L2

UNITED STATES

Natbank, National Association
4031 Oakwood Boulevard
Oakwood Plaza
Hollywood, FL 33020

National Canada Corporation
125 West 55th Street
New York, NY 10019

National Canada Finance Corp.
125 West 55th Street
New York, NY 10019

National Canada Business Corp.
125 West 55th Street
New York, NY 10019

National Canada Export Corporation
125 West 55th Street
New York, NY 10019

BAHAMAS

National Bank of Canada
(International) Limited
Charlotte House
Charlotte Street, P.O. Box N3015
Nassau, Bahamas

BARBADOS

Natcan Insurance Company Limited
The Business Center
Upton Road
Christ Church, Barbados

CHINA

Natcan Finance (Asia) Limited
Room 4001, Jardine House
1 Connaught Place, Central
Hong Kong, China

Offices abroad

UNITED STATES

Regional Office
125 West 55th Street
New York, NY 10019

Branches
225 West Washington Street
Suite 1100
Chicago, IL 60606

125 West 55th Street
New York, NY 10019

Agencies
200 Galleria Parkway, Suite 800
Atlanta, GA 30339

725 South Figueroa Street
Suite 1690
Los Angeles, CA 90017

Representative Offices
World Trade Center
401 East Pratt Street, Suite 631
Baltimore, MD 21202

5100 Town Center Circle
Suite 430
Boca Raton, FL 33486

One Federal Street, 27th Floor
Boston, MA 02110

Empire Tower
350 Main Street, Suite 2540
Buffalo, NY 14202

Two First Union Center
Suite 2020
Charlotte, NC 28282

312 Walnut Street, Suite 1900
Cincinnati, OH 45202

One Cleveland Center
1375 East 9th Street, Suite 2430
Cleveland, OH 44114

2121 San Jacinto Street
Suite 1850
Dallas, TX 75201

One Tabor Center
1200 17th Street, Suite 2760
Denver, CO 80202

165 Madison Avenue
Suite 1610
Memphis, TN 38103

201 St. Charles Avenue
Suite 3203
New Orleans, LA 70170

One Oxford Center
301 Grant Street, Suite 3440
Pittsburgh, PA 15219

Riverfront Plaza
901 East Byrd Street
Suite 1140
Richmond, VA 23219

Columbia Seafirst Center
701 Fifth Avenue
Suite 6601
Seattle, WA 98104

Post Office Plaza
50 Division Street, Suite 201
Somerville, NJ 08876

American Center
27777 Franklin Road
Suite 1570
Southfield, MI 48034

One Metropolitan Square
Suite 2980
St. Louis, MO 63102

Offices of National Canada Corporation
225 West Washington Street
Suite 1100
Chicago, IL 60606

125 West 55th Street
New York, NY 10019

Offices of National Canada Business Corp.
201 South Tryon Street
Suite 900
Charlotte, NC 28202

One Cleveland Center
1375 East 9th Street
Suite 1870
Cleveland, OH 44114

165 Madison Avenue
Suite 1610
Memphis, TN 38103

Post Office Plaza
50 Division Street, Suite 201
Somerville, NJ 08876

American Center
27777 Franklin Road
Suite 1570
Southfield, MI 48034

One Metropolitan Square
Suite 2980
St. Louis, MO 63102

Offices of Natbank, National Association
4031 Oakwood Boulevard
Oakwood Plaza
Hollywood, FL 33020

990 North Federal Highway
Pompano Beach, FL 33062

EUROPE, MIDDLE EAST, AFRICA

Regional and Representative Office
123, avenue des Champs-Élysées
75008 Paris, France

Branches
Princes House
95 Gresham Street
London, England EC2V 7LU

Zen Building, 9th Floor
Charles Malek Avenue
P.O. Box 16-5505
Achrafieh, Beirut, Lebanon

ASIA, PACIFIC

Regional Office
Room 4001, Jardine House
1 Connaught Place, Central
Hong Kong, China

Branch
Room 4001, Jardine House
1 Connaught Place, Central
Hong Kong, China

Representative Office
6th Floor, Leema Building
146-1 Soosong-Dong
Chongro-Ku
Seoul 110-140
Republic of Korea

INCORPORATION

National Bank of Canada (the "Bank") is a Schedule I bank under the *Bank Act*. The Bank's roots date back to 1859 with the founding of the *Banque Nationale* in Quebec City. The Bank of today was formed through a series of amalgamations, notably with The Provincial Bank of Canada in 1979, with The Mercantile Bank of Canada in 1985, and with National Bank Leasing Inc., its wholly-owned subsidiary, in 1992. Its head office and principal place of business is located at the National Bank Tower, 600 de La Gauchetière West, Montreal, Quebec, Canada H3B 4L2.

ENVIRONMENTAL ISSUES

In order to minimize environmental risks, several years ago the Bank implemented a procedure setting out its environmental responsibilities when granting credit and taking possession of assets. To date, the risks involved have not had a material impact on the Bank's operations.

EXECUTIVE OFFICERS

The officers mentioned on pages 104 and 105 have held various management, executive or senior executive positions with the Bank during the past five years, with the exception of Santo Alborino who, from 1993 to 1998, was employed by Bank of Montreal as Senior Manager – Employee Relations; G.F. Kym Anthony who, from 1998 to 1999, was employed by First Marathon Securities Ltd. as Chief Operating Officer and Executive Vice-President, and from 1993 to 1998, was employed by TD Securities Inc. as Chair and Chief Executive Officer; Yves G. Breton who, from 1991 to 1995, was employed by *Société de portefeuille du Groupe Desjardins, assurances générales* as Senior Vice-President and General Manager, in 1995, was employed by *La Survivance, compagnie mutuelle d'assurance-vie* as President and Chief Executive Officer, from 1995 to 1998, was employed by *Confédération des caisses populaires et d'économie Desjardins du Québec* as Senior Vice-President – Markets and Advisor to the President and Chief Operating Officer, and in 1998, was employed by the Montreal Exchange as Senior Vice-President and General Manager – Markets; Linda Caty who, from 1986 to 1994, was employed by Canadian Liquid Air Ltd. as Assistant Secretary, and from 1994 to 1998, was employed by Meloche Monnex Inc. as Corporate Secretary; Luc Fredette who, from 1992 to 1996, was employed by Royal Bank of Canada as Senior Manager – Business Lending and Senior Manager – Credit, Quebec; Michel Gendron who, from 1993 to 1998, was employed by Royal Bank of Canada as Deputy Manager – Business Banking, and Regional Manager – Business Banking; Rubina Havlin who, from 1994 to 1996, was employed by Canadian Tire Acceptance Ltd. as Group Product Manager and, from 1996 to 1999, was employed by Citibank-Diners Club Canada as Assistant Vice-President – Marketing; Richard Hébert who, from 1993 to 1997, was employed by Bank of Montreal as Manager – Personal and Commercial Financial Services, and Regional Manager – Laval North Shore; Douglas E. Kemp-Welch who, from 1995 to 1997, was employed by Bank of Montreal as Vice-President – Toronto East Flagship, Personal and Commercial Financial Services, from 1997 to 1998, as Vice-President – Eastern Ontario Flagship, Personal and Commercial Financial Services, and from 1998 to 1999, as Vice-President – Eastern Northern Ontario Group, Personal and Commercial Financial Services; Albert Labelle who, from 1994 to 1998, was employed by Avco Financial Services as Vice-President and General Manager; Jacques Naud who, from 1993 to 1996, was employed by Bank of Montreal as Commercial Accounts Manager, from 1996 to 1997, as Community Banking Manager – Retail and Commercial Business, and from 1997 to 2000, as Community Banking Manager; Jean-Jacques Morin who, from 1998 to 1999, was employed by Jazz Media Network as Vice-President – Marketing and Business Development, and from 1990 to 1997, was employed by Culinar, Vachon Division as Vice-President – Marketing; Enrico Pallotta who, from 1993 to 1998, was employed by ABN AMRO Bank Canada as Group Vice-President – Corporate Banking and, from 1998 to 2000, was employed by Merrill Lynch Canada Inc. as Vice-President – Investment Banking Group; Jean-Charles Petitclerc who, from 1994 to 2000, was employed by Bank of Nova Scotia as Senior Vice-President – Systems Operations and Technical Services; Jacques A. Pinsonnault who, from 1994 to 1999, was employed by Bankers Trust of Canada as Managing Director – Capital Markets; Pierre Therrien who, from 1990 to 1998, was employed by Royal Bank of Canada as Manager – Private Banking Centre; Peter Thompson who, from 1996 to 1997, was employed by RoyNat Inc. as Senior Account Manager and, from 1997 to 1998, as Manager – Corporate Lending; Michel Tremblay who, from 1993 to 1998, was employed by ING Canada as Senior Vice-President – Investments, and by ING Investment Management as Senior Vice-President and Managing Director; and Louis Vachon who, from 1994 to 1996, was employed by BT Bank of Canada as President and Chief Executive Officer. The directors and executive officers of the Bank, as a group, beneficially own less than 2% of the outstanding common shares of the Bank.

REAL ESTATE

With respect to real estate holdings, as at October 31, 2000, the Bank owned, for its operations, 118 buildings in Canada and leased 512 premises, including 34 abroad. It also held two other buildings through the intermediary of its wholly-owned subsidiary, National Bank Realty Inc. With respect to the premises of its head office located in Montreal, the Bank held a long-term lease of 20 years, ending on February 9, 2020. The Bank's consolidated fixed assets at cost, less accumulated amortization, and excluding furniture, equipment and leasehold improvements, amounted to $70 million as at October 31, 2000. Information concerning the Bank's fixed assets is provided in Note 6 to the consolidated financial statements on page 69 of the Annual Report.

ADDITIONAL INFORMATION

The Bank undertakes to provide to any person, upon request, a copy of the Annual Information Form of the Bank, together with a copy of any document incorporated therein by reference, a copy of the annual consolidated financial statements for the year ended October 31, 2000 with the accompanying auditors' report, a copy of any subsequent quarterly financial statements, a copy of the Management Proxy Circular of the Bank in respect of its most recent Annual Meeting of Shareholders that involved the election of directors, and a copy of any other document that is incorporated by reference into a preliminary short form prospectus or a short form prospectus whenever the securities of the Bank are part of a distribution. The Bank's Management Proxy Circular dated December 22, 2000, which is enclosed with the Notice of Annual and Special Meeting of Shareholders scheduled for March 7, 2001, contains additional information such as the remuneration and indebtedness of directors and executive officers, the principal holders of Bank shares and the share options awarded. Copies of these documents may be obtained upon request from the Corporate Secretary's Office of the Bank, 600 de La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

DOCUMENTS INCORPORATED BY REFERENCE

Additional items comprising the Bank's Annual Information Form are disclosed in various sections of this Annual Report and are incorporated by reference as set out below.

Item	Reference
1. Major Subsidiaries	Pages 92, 108 and 109
2. General Development of the Business	Pages 2, 4 and 8 to 11
3. Description of Business and Competitive Conditions	Pages 12 to 23
4. Loans by Borrower Category	Page 46, Table 10
5. Impaired Loans	Page 47, Table 13 and page 68, Note 4
6. Interest on Impaired Loans	Page 47, Table 14
7. Provision for Credit Losses	Page 43, Table 4
8. Designated Countries	Page 47, Table 12
9. Personal, Business and Mortgage Loans	Page 42, Table 2 and page 58
10. Earning Assets Abroad	Page 79, Note 18
11. Assets Under Administration/Management	Page 45, Table 9
12. Personnel	Page 91
13. Main Consolidated Financial Data	Pages 48, 49, 90 and 91
14. Cash Dividends and Dividend Policy	Page 71, Note 11 and page 112
15. Quarterly Results	Pages 48 and 49
16. Management's Discussion and Analysis	Pages 28 to 41
17. Market for Trading Bank's Securities	Page 112
18. Directors and Officers	Pages 97 to 105

Information for Shareholders and Investors

STOCK EXCHANGE LISTINGS

The common shares of the Bank as well as the First Preferred Shares, Series 10, 11, 12 and 13 are listed on The Toronto Stock Exchange. The ticker symbols and newspaper abbreviations for the Bank's shares are as follows:

	Ticker Symbol	Newspaper Abbreviations
Common Shares	NA	Nat Bk or Natl Bk
First Preferred Shares		
– Series 10	NA.PR.G	Nat Bk s10 or Natl Bk s10
– Series 11	NA.PR.H	Nat Bk s11 or Natl Bk s11
– Series 12	NA.PR.I	Nat Bk s12 or Natl Bk s12
– Series 13	NA.PR.J	Nat Bk s13 or Natl Bk s13

TRANSFER AGENT AND REGISTRAR

General Trust of Canada
1100 University
9th Floor
Montreal, Quebec
H3B 2G7
Telephone: (514) 871-7171
1-800-341-1419

NATIONAL BANK OF CANADA HEAD OFFICE

National Bank Tower
600 de La Gauchetière West
Montreal, Quebec
H3B 4L2
Telephone: (514) 394-5000
Telex: 0525181
(Nabacan Montreal)
Internet: www.nbc.ca

General Trust of Canada acts as Transfer Agent and Registrar in Montreal, Toronto, Regina, Calgary, Saint John, Vancouver and Winnipeg.

DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

Under the Dividend Reinvestment and Share Purchase Plan, holders of common shares or preferred shares of the Bank may invest in common shares of the Bank without paying a commission or administration fee.

Participants in the Plan may acquire shares by reinvesting cash dividends paid on shares held by them or by making optional cash payments of a minimum of $500 per cash payment, up to $5,000 per quarter.

For additional information, contact the Registrar, General Trust of Canada, at (514) 871-7171 or 1-800-341-1419.

DIRECT DEPOSIT SERVICE

Shareholders of the Bank may elect to have their dividends deposited directly into the bank account of their choice by advising General Trust of Canada.

NUMBER OF SHAREHOLDERS

As at October 31, 2000, there were 30,795 registered holders of common shares listed with the Registrar.

PAYMENT OF DIVIDENDS

Declared dividend payments for common shares are made on the 1st of February, May, August and November; for First Preferred Shares, Series 10, 11, 12 and 13, the dividend payment date is the 15th day of the above months.

The dividend record dates for common shares are December 28, 2000, and March 22, June 28 and September 27, 2001; for First Preferred Shares, Series 10, 11, 12 and 13, they are January 5, April 6, July 13 and October 12, 2001.

INFORMATION

For any additional information, shareholders are requested to contact the Transfer Agent and Registrar, General Trust of Canada.

Shareholders who receive more than one copy of a document, particularly of quarterly or annual reports, are requested to notify the Registrar.

ANNUAL MEETING

The Annual and Special Meeting of Holders of Common Shares of the Bank will be held on Wednesday, March 7, 2001, at 8:30 a.m., at The Queen Elizabeth Hotel, 900 René-Lévesque Blvd. West, Montreal, Quebec.

Caution regarding forward-looking statements

As part of its analyses and reports, National Bank of Canada from time to time makes forward-looking statements concerning the economy, market changes, the achievement of strategic objectives, certain risks and other related matters.

By their very nature, such forward-looking statements involve inherent risks and uncertainties. It is therefore possible that express or implied projections contained in such statements will not materialize or will differ materially from actual future results. Such differences may be caused by factors which include, but are not limited to, changes in Canadian and/or global economic conditions (particularly fluctuations in interest rates, currencies and other financial instruments), market trends, technological changes and regulatory developments.

Investors and others who base themselves on the Bank's forward-looking statements to make decisions should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The Bank therefore cautions readers not to place undue reliance on these forward-looking statements.

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Pour obtenir un exemplaire de la version française du rapport annuel, veuillez vous adresser à :
Service des relations publiques
Banque Nationale du Canada
600, rue de La Gauchetière Ouest, 8e étage
Montréal (Québec) H3B 4L2

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